


**FY 2003 BUDGET IN BRIEF
MISSOURI BUDGET AND LEGISLATIVE AGENDA**

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January 23, 2002

TO THE GENERAL ASSEMBLY AND THE PEOPLE OF MISSOURI:

The past year has presented our nation and state with many challenges. The national and Missouri economies slipped into recession in March. In fact, Missouri state revenues were already weakening toward the end of 2000. Upon taking office last January, I immediately had to reduce state spending to get the budget back in balance. The terrorist attacks of September 11 took the lives of thousands of our fellow citizens and disrupted the lives of all Americans. The attacks deepened our economic troubles and delayed the hoped for economic recovery. Like Missouri families, state government must live within its means and I have had to further cut state spending to keep the budget in balance.

During the current fiscal year I have had to reduce state spending from appropriated levels by more than \$600 million. These cuts have not been easy, but were necessary to ensure the financial stability of the present and the economic promise of tomorrow. By acting quickly, I believe that Missouri has avoided the financial disasters that currently confront some other states.

The Fiscal Year 2003 budget will again be very tight. The revenue estimate I have endorsed, along with the Missouri House and Senate, calls for only limited growth in general revenue. Therefore, next year we will have to stretch dollars farther than ever before to meet our obligations. It is very difficult to recommend many of the core cuts in this budget. I am saddened that the state will be unable to provide all of the services that citizens have come to expect.

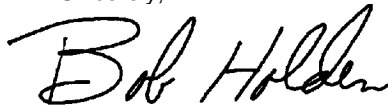
There are some cuts that I am unwilling to recommend. I am calling on the General Assembly to join me in using the state's rainy day fund to preserve critical services that would otherwise have to be reduced to balance the budget. The rainy day fund was established to give the state extra resources when it most needs them. The time has come to use these funds.

Improving K-12 education is my number one priority. The Fiscal Year 2003 budget includes full-funding of the school foundation formula. This additional funding can be obtained without a general tax increase. I am asking the General Assembly to join me in supporting a legislative funding package that will increase state revenues from a variety of sources including riverboat gaming, lottery, tax loopholes, and a tax amnesty program. Securing this funding is a critical step in keeping the state's commitment to improving our schools.

The Fiscal Year 2003 budget also provides important new resources to improve Missouri's homeland security. Even in tight budget times, we must not neglect our responsibility to take prudent steps to safeguard our citizens and vital assets against the emerging terrorist threat.

The Fiscal Year 2003 budget will be the tightest budget in more than a decade. Missouri has weathered such storms in the past and will do so again. I am committed to keeping the budget balanced through fiscally responsible policies. However, now more than ever before, we must look to the future. The future of Missouri is being shaped in the classrooms of today. Passage of my plan to fully fund the school foundation formula is essential to improving teaching and learning and will help secure a brighter future for Missouri.

Sincerely,

A handwritten signature in black ink that reads "Bob Holden". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Bob Holden
Governor of Missouri

MISSOURI BUDGET AND LEGISLATIVE AGENDA

Leadership and Fiscal Responsibility

“We must take the fiscally responsible actions necessary to keep our state’s economy strong during the tough times, so we can continue to prosper in the good times”

Governor Bob Holden

OVERCOMING THE STATE’S BUDGET CHALLENGES

When Governor Holden took office one year ago, the state was beginning to face the largest fiscal challenge in many years. These challenges continue in Fiscal Year 2003, requiring budget cuts not seen in decades. Governor Holden faced these challenges immediately. His first task after taking office was to put Missouri’s fiscal house in order. The Governor has again met this challenge and presents a balanced Fiscal Year 2003 budget. Although constraints have been placed on the budget and there is little room for funding new ideas, the Governor is committed to helping the state and its citizens recover and grow in the 21st Century.

Understanding the Budget Challenges

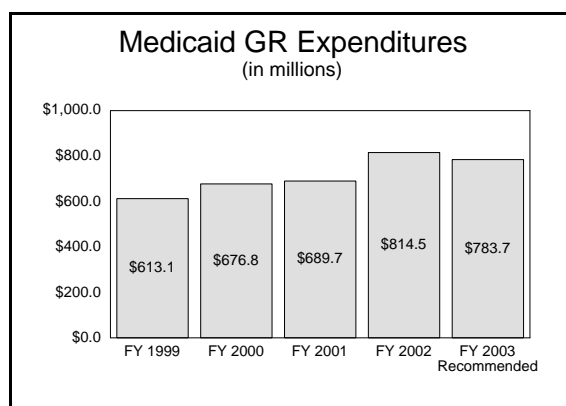
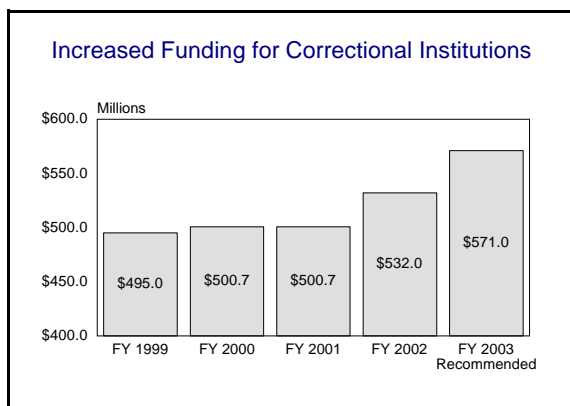
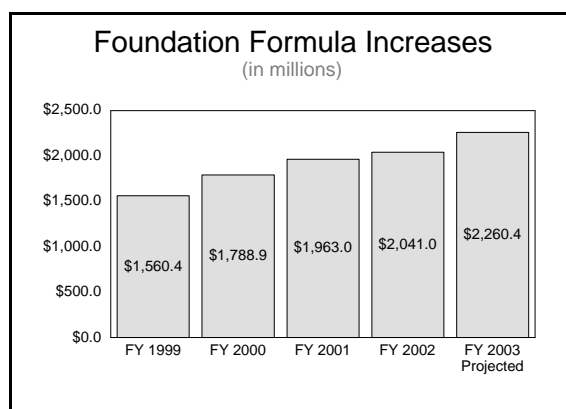
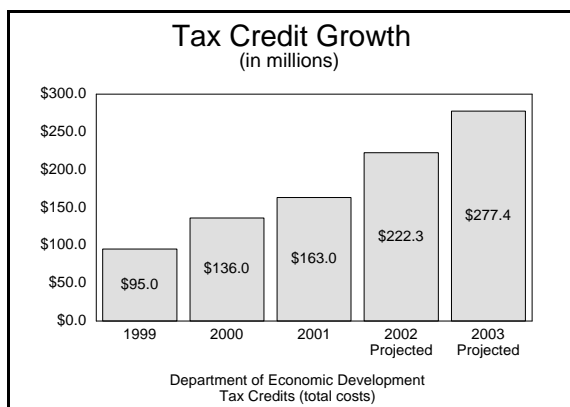
The economy officially went into recession in March 2001. During the summer of 2001, all major national forecasters envisioned an economy that would begin growing again during the last half of calendar year 2001 with substantial growth during calendar year 2002. However, the terrorist attacks of September 11 have delayed economic recovery and made it likely that such recovery will be slower and weaker than hoped.

As demonstrated by the graphs on the following page, the increasingly tight budget is due to a combination of factors, including:

- Substantial increases in costs in areas such as Medicaid and Corrections.
- Escalating costs of tax credits passed in recent years.
- Rising costs to fund the state’s public education Foundation Formula.
- Stagnant rates of growth of revenues coming into the state.

Leadership in Tough Economic Times

Just before Governor Holden took office one year ago, he learned that he was faced with a budget that had to be cut. The continued recession and the economy’s reaction to the terrorist attacks have forced Missouri, and most other states, to reduce spending to ensure a balanced budget.



During Fiscal Year 2001, in his first six months of office, Governor Holden:

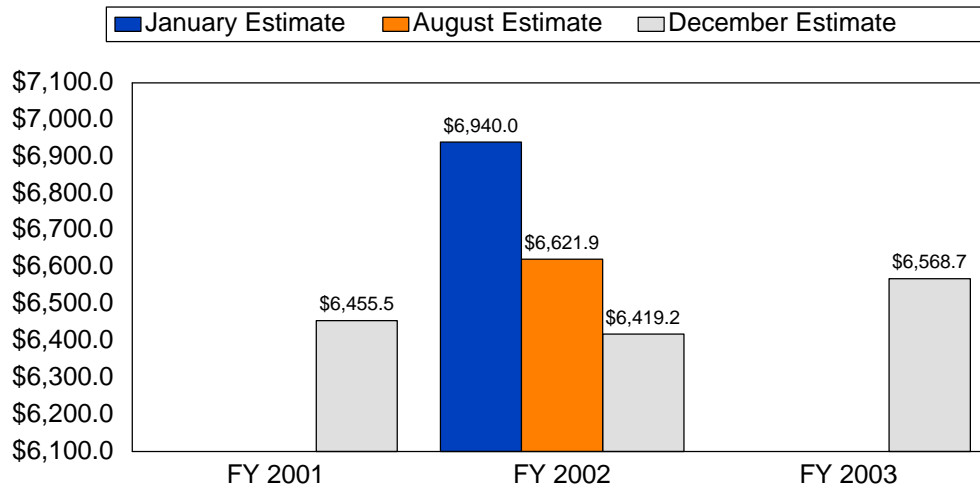
- Withheld \$76 million in state agency operating budget spending.
- Redirected \$126.9 million in tobacco settlement proceeds to help pay the escalating costs of the senior prescription drug tax credit.
- Changed state expenditure practices to prevent end-of-year spending by state agencies.
- Maximized federal revenues.

In Fiscal Year 2002 net general revenue collections are now estimated to be \$520.8 million below the \$6.9 billion on which the budget is based. In addition, net general revenue collections are now estimated to be \$36.3 million below those actually received in Fiscal Year 2001, a .6 percent decline. Revenue estimates are jointly agreed to by the budget office, the House, and the Senate.

Since the General Assembly passed the budget May 2001, Governor Holden has taken \$536 million in actions to ensure that the state's Fiscal Year 2002 budget is balanced:

- Core cut \$196.6 million from the budget – the most in Missouri history.
- Withheld \$200.3 million in state agency operating budget spending.
- Withheld \$140.7 million in capital improvements spending, mostly for higher education construction.
- Withheld \$82.5 million in spending from the tobacco settlement and redirected that money to general revenue.
- Redirected \$78.5 million in funds from other state accounts to general revenue.
- Vetoed \$26.5 million from the budget.
- Reduced tax credits by \$7.5 million.

Net General Revenue Estimate (in millions)



*Adjusted for tobacco settlement proceeds used for the prescription drug tax credit.

PRESENTING A FISCAL YEAR 2003 BALANCED BUDGET

The Fiscal Year 2003 budget presents a difficult challenge for the Governor and the General Assembly:

- Fiscal Year 2003 net general revenue collections are projected to increase by \$149.5 million over the projected final Fiscal Year 2002 estimate, a relatively anemic 2.3 percent growth.
- Fiscal Year 2003 net general revenue collections are projected to be \$371.3 million below the amount needed to support the budget approved for Fiscal Year 2002.

Because of this shortfall, the state must cut \$371.3 million from the budget even before it can consider funding any new items or increasing funding for existing programs because of escalating costs.

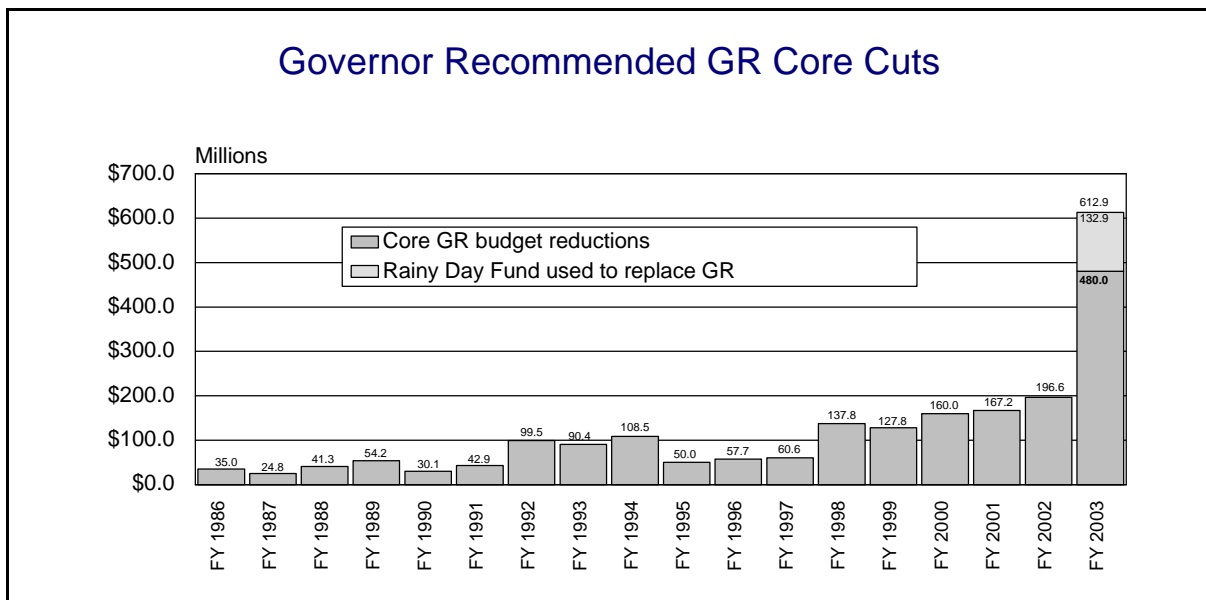
Core Budget Review

As State Treasurer, Bob Holden focused on increasing the state's return on its investment. As Governor, Bob Holden wants Missouri government to be similarly focused on results and accountable to taxpayers. Missouri has been recognized as one of the best-managed states in the nation.

In mid-2001 Governor Holden directed the state budget office to conduct the most thorough review ever done of the state budget, reviewing hundreds of state programs. The Governor demanded that the "core" review be performance based by examining the results that are being achieved by each state program. Governor Holden is committed to reviewing the core budget every year. The state budget office and the Governor's Cabinet Director reviewed all general revenue programs – their purpose, funding, and results.

In addition, the departments of state government were asked to submit "core" reduction plans of 5 percent, 10 percent, and 15 percent with an explanation of the impact of losing this funding.

The result of this "core" review is \$612.9 million in budget cuts, bringing the Governor's two year core cut total to \$809.5 million. The Governor recommends that \$132.9 million of the core reductions be replaced with budget reserve funds on a one-time basis in Fiscal Year 2003. These cuts have made it necessary to reduce the size of the government workforce. The budget includes 688 fewer state positions. The Governor worked to make these reductions in areas that would least impact vital services provided by state government. Departments will be given flexibility to cut as many of these positions as possible through retirements and attrition.



ADDITIONAL MEASURES TO BALANCE THE FISCAL YEAR 2003 BUDGET

In order to maintain vital services, the state will have to take additional measures to balance the Fiscal Year 2003 budget. In addition to \$612.9 million in cuts to existing core agency budgets, Governor Holden proposes the following to meet Missouri's constitutional obligation to balance the budget.

Tapping the State's Rainy Day Fund

At least 44 states have funds to cover budget shortfalls in case of a state disaster or economic downturn. These are commonly called "rainy day" funds (RDF) and serve as state savings accounts to contribute to in good economic times and draw from in difficult budget times. Missouri created its rainy day fund twenty years ago with the Cash Operating Reserve Fund in 1983 to address cash flow problems faced by the state in the early 1980's and ensure the state pays its bills on time. The state created the Budget Stabilization Fund in 1985. It was designed to provide short-term funding when revenue collections are less than anticipated due to an economic downturn. The state was not able to contribute to the fund until 1992.

In November 2000 the voters of Missouri approved creating a Budget Reserve Fund by combining the state's Cash Operating Reserve Fund and the Budget Stabilization Fund. The fund is required to have 7.5 percent of the previous year's net general revenue collections. The fund had a \$458.4 million balance at the beginning of October 2001. Under the state's constitutional provisions, the Governor, with two-thirds approval by the General Assembly can use up to one-half of the fund for "rainy day" purposes.

The Governor recognizes that the RDF only provides one-time revenues for these ongoing services. The state constitution requires that any "rainy day" use be repaid to the fund in payments of one-third over three years. Therefore, the Governor's recommendations would require a \$45 million repayment plus interest to the RDF in Fiscal Years 2004 to 2006. The repayment can take place more quickly at the discretion of the Governor and the General Assembly.

Unfortunately, many of the core cuts that are required to balance the budget put Missouri's most vulnerable citizens at risk. The Governor has identified \$132.9 million in general revenue budget cuts that he believes compassionate Missourians will agree go too far. In addition, \$2.1 million is needed to implement priority health care legislation. The Governor recommends that \$135 million of the state's RDF be used to pay for these services in Fiscal Year 2003. These services cannot be supported by current revenue sources. Though critical to these Missourians who rely on them, they are not services that the state must provide. The Governor's budget recommendations protect these critical services by tapping the RDF.

If use of the RDF is not approved, the services listed at the top of the following page would have to be cut from the state budget in Fiscal Year 2003.

Cost Controls

The Governor's budget includes numerous cost containment measures to curtail escalating Medicaid health care costs. Even with the implementation of these cost containment efforts in the state's Medicaid program, Governor Holden continues his commitment to ensuring that children will receive access to vital health care coverage through the Medicaid program. No child will lose health insurance coverage as a result of these cost control efforts. The Governor's Fiscal Year 2003 budget proposes:

- Increasing the level of disability required for in-home and nursing home service eligibility. By increasing the disability level, Missouri will focus in-home and nursing home services towards those Missourians who most need the care, thus enabling the state to continue long-term funding of Medicaid services. Estimated savings - \$27.1 million.

Budget Reserve Fund Recommendations

Elementary and Secondary Education

Personal Care Assistance	\$4,002,175
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Transportation

Transit funding	7,531,179
Elderly and handicapped transportation	1,349,341
AMTRAK	4,825,000
Port authority assistance	400,488

Mental Health

Alcohol and drug abuse treatment services	15,796,627
Comprehensive psychiatric community services	56,048,544
Community programs for the developmentally disabled	20,450,631

Health and Senior Services

Home and community services program and grants	22,462,164
Lupus (HB 106)	58,987
Expanded newborn screening (HB 279)	868,076
Family care safety registry (SB 48)	106,678
Quality monitoring (HB 316 & SB 326)	275,102

Social Services

Presumptive eligibility	770,080
Expanded newborn hearing screening (HB 401)	54,928

Total	\$135,000,000
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- Containing pharmacy costs, including a plan to prior authorize all new drugs coming onto the market. Prior authorizing all new drugs purchased through the Medicaid program will ensure that new drugs have actual health benefits for Medicaid recipients in the state. In addition, Medicaid will cease reimbursement for over-the-counter drugs, allowing Medicaid to more closely mirror the health care benefits enjoyed by most Missourians. Estimated savings for pharmacy cost containment proposals - \$50.4 million.
- Instituting policy changes in the Medicaid Spend-down Program. Spend-down allows eligible Missouri residents to spend-down their income in order to qualify for Medicaid benefits. Currently, the program allows participants to incur, not pay, expenses in order to qualify for the spend-down program. By instituting a policy change that requires recipients to actually pay these costs, the state will be able to provide this needed service to eligible recipients. Estimated savings - \$20.6 million.
- Modifying or eliminating optional Medicaid services for adults. Although Missouri has elected to cover dental and optical services for adults in the Medicaid system in the past, in order to ensure the solvency of the Medicaid system, it has become necessary to end coverage provided for these optional Medicaid services. Estimated savings - \$16 million.

Using Tobacco Settlement Proceeds

In 1998, the National Association of Attorneys General announced a national settlement agreement with five major tobacco companies. Missouri was part of this settlement. In May 2001, Missouri received its first payment of the Tobacco Settlement proceeds. It is estimated that the state will receive about \$164 million

during Fiscal Year 2003. Because of the state's current revenue situation, it is not prudent to begin dozens of new programs when existing programs are being cut. The Governor recommends using a portion of the tobacco proceeds to pay for core health programs while retaining a portion for the most critical investments that will improve the lives of Missourians in the future. The Governor proposes using \$120.3 million to fund life sciences, tobacco prevention efforts, and the prescription drug program for senior citizens. The remainder will be used to prevent additional cuts in core health care programs that provide a safety net for Missouri's most vulnerable citizens.

Securitizing Tobacco Settlement Proceeds

A number of states have sold their tobacco settlement proceeds in a process called "securitization." Tobacco securitizations are similar to revenue bond borrowing. New York City issued the first tobacco revenue bonds in November 1999. In Missouri, the Board of Public Buildings would sell bonds secured by the rights to the future stream of tobacco settlement payments. The state would then receive a large one-time payment that could be used for any purpose approved by the Governor and the General Assembly.

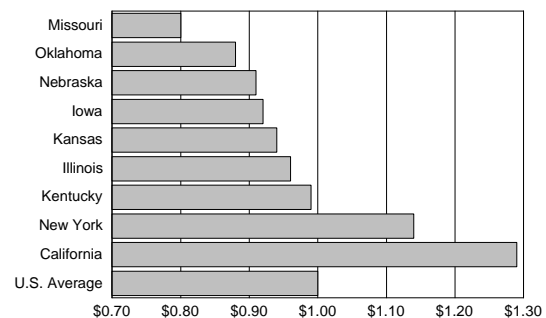
The Governor supports legislation that would allow the state to securitize Missouri's tobacco settlement proceeds. Having used a large portion of the "Rainy Day" Fund, it is appropriate to give the state another mechanism to raise one-time revenues that could be used for one-time purposes. In the current national economic crisis, several states have securitized large amounts of tobacco settlement proceeds and have funded ongoing, multi-year appropriations. States that have adopted this short-term practice have seen their bond ratings downgraded thus creating higher costs for any borrowing which is not acceptable for Missouri because it is one of only nine states with a triple-A bond rating from each of the three major bond-rating firms.

Missouri — A Low-Tax State

In addition to being ranked one of the top managed states, Missouri continues to be a low tax state; Missouri was recently ranked one of the lowest cost states to live in the nation. It is a "good deal" to live in Missouri and taxpayers get a "good deal" from their state government. Missourians are fortunate they can do more with less. Among all states Missouri ranks 47th in State Government Expenditures Per Capita. By any objective measure, Missouri is a low-tax state as the table on the following page demonstrates.

For each dollar an average U.S. citizen pays in state taxes, the average Missouri citizen pays only 80 cents. Missouri state taxes are 20 percent below the U.S. average and among the lowest in the region.

State Averages of Tax Revenue Per Capita



**Recent Rankings on Missouri Revenues and Expenditures
(as compared with all 50 states)**

<u>Indicator</u>	<u>Source</u>	<u>Date Issued</u>	<u>Rank</u>
State Revenues			
State Government Own Source Revenue (Per Capita)	Morgan Quitno	2001	42
General Revenue - State and Local (% of Personal Income)	Governing Magazine	2001	46
General Revenue - State and Local (Per Capita)	Governing Magazine	2001	45
Total Revenue - State and Local (% of Personal Income)	Governing Magazine	2001	47
Total Revenue - State and Local (Per Capita)	Governing Magazine	2001	48
State Revenues (Per Capita)	U.S. Census Bureau	2001	39
Corporate Income Tax - State (Per Capita)	U.S. Census Bureau	2001	44*
Total Taxes (Per Capita)	U.S. Census Bureau	2001	44
State Expenditures			
State Government Expenditures (Per Capita)	Morgan Quitno	2001	47
General Spending - State and Local (% of Personal Income)	Governing Magazine	2001	46
General Spending - State and Local (Per Capita)	Governing Magazine	2001	48
Total Spending - State and Local (% of Personal Income)	Governing Magazine	2001	47
Total Spending - State and Local (Per Capita)	Governing Magazine	2001	49
State Expenditures (Per Capita)	U.S. Census Bureau	2001	44

*Six states do not levy a corporate income tax.

MANAGING FOR RESULTS

STRIVING FOR A BETTER, SMALLER GOVERNMENT

In recent years, Missouri has greatly expanded its efforts to achieve results through better government. *Governing Magazine* recognized this progress, ranking Missouri as having one of the five best Managing for Results efforts in the nation. Governor Holden sees the current fiscal environment as both a challenge and an opportunity to manage state government even better.

Managing for results requires a long-term commitment to doing business more efficiently and effectively - keeping government focused on results and driving meaningful improvements for Missouri citizens. The Managing for Results effort encourages fact-based decision-making and innovation and recognizes the need for agencies to work together to drive significant improvements.

Managing for Results will lead to:

- Better performance on high priority results.
- Increased accountability for Missouri citizens.
- Improved agency performance.
- Cost savings.
- Seamless customer service.
- Expanded public involvement.

Better Performance and Increased Accountability

As part of his Managing for Results Initiative, Governor Holden has identified a set of priority results that measure the well-being of the people who live and work in the state. The Governor is committed to measuring and driving improvement in these priority areas and then communicating those results on a regular basis. In this way, state government will truly be accountable to Missouri citizens.

Results will be developed and measured around the Governor's priorities of:

- Children born healthy and entering school ready to learn.
- Children succeeding in school.
- Families achieving financial security.
- Citizens living in a safe, secure Missouri.
- Missourians enjoying a long, healthy life.

These priority results will also guide the Governor's budgetary and legislative decisions, ensuring that the state's limited resources are focused on the most vital programs and services.

Improving Agency Performance

Another critical component of the Managing for Results Initiative is improving state agency performance. Immediately upon taking office, Governor Holden brought together a team to help guide and support these performance improvement efforts. Department managers and employees working with the group's assistance have generated millions of dollars of improvement in their first year of operation. The Department of Transportation will save over \$100 million in administrative costs over the next five years. The Division of Child Support Enforcement, in the Department of Social Services, has identified and distributed millions of dollars in child support payments to the rightful owners. Significant results have also been achieved in the areas of administrative services, environmental permits, business support, child protective services, tax processing, motor vehicle registration, and drivers licensing.

Flexibility and Accountability

While promoting accountability for achieving results, policymakers must also work to accomplish these results most effectively. Agencies need to be able to take advantage of improved procedures and efficiencies as quickly as possible to help reduce the cost of government. So, Governor Holden will ask the legislature to permit additional flexibility across narrow program and budget categories. Such flexibility, already granted to the Missouri Department of Revenue, helped lead to that agency's receipt of the Missouri Quality Award, the only department of state government ever recognized with this honor.

Although Missouri has been nationally recognized for systematic reviews of programs, the current budget challenge requires even closer scrutiny of existing programs. To ensure this, Governor Holden encourages the General Assembly to consider enacting a Missouri sunset law affecting all new or existing programs.

Achieving Results and Seamless Customer Service

Governor Holden knows that Missouri state government can continue to improve: it can be smarter and more efficient. The Governor is committed to holding state government agencies accountable to a higher standard of performance and quality. His business-like approach to managing state government focuses on setting priorities, measuring success, making better decisions, and communicating results. In order for state government to be truly accountable, results must be reported to the public in more visible and accessible ways. More information can be found about Governor Holden's Managing for Results Initiative on the Internet at www.mri.state.mo.us.

Citizen contact with state employees, products, and services shapes the public perception of state government. All too often, these contacts require multiple visits to offices of different agencies, each with long lines, new requirements, and paper applications that can lead to a slow flow of inaccurate or incomplete information. Government needs to keep up with leaders in the public and private sector in simplifying its organizations and processes to reduce the hassle of citizen contact with

government. Simpler and more efficient services can also mean better results at a lower cost.

Several impediments exist to providing this hassle-free service. Through its history the state has established many programs in different agencies to achieve similar purposes. Some of these programs duplicate others and some require services in multiple agencies for success. All tend to confuse Missouri citizens. These same citizens do not care who runs the program, where it's located, or how to apply; they just want results without hassles.

The New Shape of Public Service: Structuring for Success

Restructuring alone will not improve performance or reduce costs. However, when re-engineered based on customer needs and desired results, improved service delivery can help achieve "more for less" — better results at a lower cost.

Over the past year interested parties from Missouri's public, private, charitable, and academic sectors have evaluated the way the state uses public resources to achieve its most important results. For citizens at key points in their lives — whether new parents, young students, unemployed workers, or disabled persons — these teams identified overlapping and confusing program structures as key barriers to success.

With funding so limited, Missouri cannot afford to pay twice for the same services or to pay for services that, because of lack of coordination, do not achieve desired results. It is time to expand the comprehensive review of state government and look at the integration of departmental operations to improve the way services are delivered to Missouri taxpayers. Governor Holden has urged state employees to transform the budget challenge into an opportunity for changing state government for the better. His administration will continue to explore additional areas to streamline the way the state conducts business, including those areas listed below.

Governor Holden will:

- Appoint a task force involving departments of state government and private citizens to redesign service delivery systems.
- Direct the completion of a restructuring proposal.
- Seek legislative support for more accountability for results and flexibility in operations across program and agency lines.

Early Childhood Care, Education and Development

Study after study has indicated the importance of early childhood programs in preparing young children to be ready to learn when entering kindergarten. Missouri became the first state in the nation to report on the state's success in achieving this goal. However, as with other areas listed below, an array of programs among various agencies limits the effectiveness of these programs. The Governor has called for a review of the state's many early childhood programs.

Workforce Development

In recent years, progress has been made in focusing on customers of multiple agencies. One-stop job training service centers were established around Missouri to improve access to the whole menu of programs available to people trying to move off welfare and out of poverty, or those laid off from their jobs. All too often, however, citizens receiving services still must travel from office to office to get the full range of services they need to accomplish their goals. To eliminate the hassles and inefficiency involved in this system, Governor Holden has called upon the Director of the Department of Economic Development and the Missouri Training and Employment Council to work with other agencies to further streamline the state's workforce development system.

Motor Carrier Services

Growth in the trucking industry in Missouri has provided thousands of new jobs over the past few years. This growth has added to the economy of Missouri but also has raised concerns about safety on our highways.

Currently, truck companies seeking registrations have to contact up to four different offices. Passenger cars frequently encounter big rigs driving across the state to visit these offices in person. In order to ease the cost of compliance and improve safety, Governor Holden will be recommending the restructuring of four agencies providing registration services into a single department. By sharing administrative services and facilities, consolidation will save money. By providing one-stop registration and electronic options, a consolidation will save customers' time. In addition, cutting staffing and red tape in routine registration will allow greater attention to safety.

Personal Independence Services

One of the fastest-growing components of state government involves services to those Missourians of all ages who are living with a physical or mental disability. A team of affected agencies will plan and implement improvements to forge a system that simplifies customer access, achieves better results, and reduces administrative costs.

Increasing Employee Involvement

Another critical component of Governor Holden's Managing for Results Initiative is to expand involvement in the state's improvement initiatives. Some of the best ideas about getting better results, lowering costs, and improving customer satisfaction in the private sector come from the employees who know these products and services best. In an effort to replicate quality programs from the public and private sectors that obtain this input, Missouri government will establish a website for posting suggestions in these areas. Based on a model at the Missouri Department of Revenue, the IDEA (Improvements Designed to Enhance Achievement) Program will provide senior managers with a regular opportunity to review suggestions from employees.

Volunteerism and Youth Development

With few financial resources, Missouri will depend more and more on volunteers to help achieve our most important goals. Especially since September 11, citizens have been looking for ways to help their neighbors and their communities. For young people in

particular, research has shown the value of their attachment to school and community in enhancing academic success while avoiding some of the physical and emotional risks they face.

Governor Holden will work with groups across Missouri, such as the Community Services Commission, chaired by Lt. Governor Joe Maxwell, to lead an effort to energize the community spirit of Missouri, and young people in particular, to help achieve Missouri's highest goals. The National Governors Association and not-for-profit organizations throughout Missouri have agreed to help in the Volunteerism and Youth Development Initiative.

As part of this effort, Governor Holden will appoint a Youth Cabinet of young Missourians to work with organizations serving youth across Missouri to better target their resources, public and private, on the needs of children preparing to enter adulthood. This effort will focus on improving student academic performance and avoiding the pitfalls of youth, such as teen pregnancy and drug and alcohol abuse.

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MISSOURI BUDGET AND LEGISLATIVE AGENDA

Children Succeeding in School

“The combination of full accountability and the necessary resources to meet the standards we set will make Missouri’s public schools among the best in the nation. We cannot afford to settle for anything less. Our future depends on it.”

Governor Bob Holden

The Holden administration’s top priority will always be K-12 education. Our children – and our ability to compete in the new economy of the 21st Century – depend on the state’s investment in public education. In his first year, Governor Holden accomplished the following to improve the state’s investment in public education:

- Budgeted a \$78 million increase to fully fund the state’s School Foundation Formula and At-Risk Program, bringing total funding to over \$2 billion.
- Signed legislation to require report cards on academic performance and school conditions at the building level. Senate Bill 575 and House Bill 865 were signed into law on June 14, 2001.
- Budgeted \$1 million in funding for a Character Education Initiative to help students understand their current and future responsibilities as citizens. Character Education programs emphasize the importance of universal values such as responsibility, respect, trustworthiness, fairness, caring, and citizenship.
- Budgeted additional funding for the A+ Schools Program that helps high schools increase student performance and provides scholarships for qualified students who might otherwise not obtain post-secondary education.
- Signed legislation to ensure that assets from criminal forfeiture cases benefit the School Building Revolving Fund. Senate Bill 5 was signed into law May 17, 2001.
- Established the Missouri Math Academy to develop a new middle school curriculum for teaching mathematics. The academy is expected to train 200 teachers in 2002 and 400 in 2003.

Throughout the past year’s budget reductions, Governor Holden has renewed his commitment to making elementary and secondary education the number one priority of his administration by ensuring that withholdings did not harm public schools or Missouri students. Governor Holden’s Fiscal Year 2003 budget demonstrates his commitment to improving the education and well-being of Missouri’s children by fully funding the School Foundation Formula. Governor Holden proposes initiatives to improve accountability, improve the education of students through various reform strategies, and expand opportunities for children with disabilities.

FULLY FUNDING PUBLIC EDUCATION

In the Fiscal Year 2003 budget, Governor Holden's number one priority is to provide full funding for the state's primary assistance program for Missouri's 524 local school districts. Full funding of the Foundation Formula will assist public school districts in providing vital services while demonstrating the state's commitment to equip Missouri students with the tools they need to succeed in school. The Foundation Formula provides funds to:

- Improve student academic achievement.
- Increase teacher salaries which helps retain and attract qualified teachers.
- Assist with increasing operating costs outside the control of the district, such as utilities, supplies, and insurance.
- Lower class sizes.

- Provide professional development opportunities to teachers and school administrators.
- Provide resources for school districts to improve curriculum.

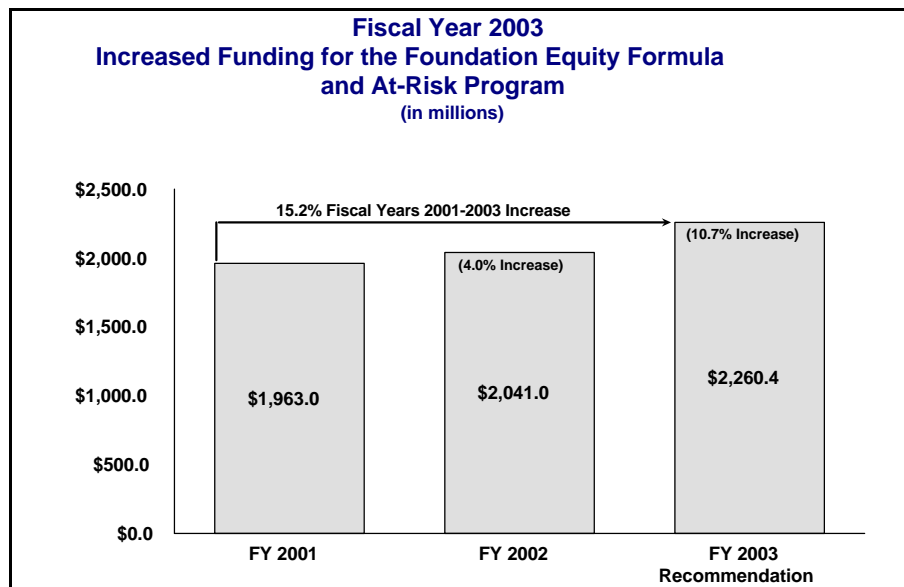
If not funded, school districts would encounter difficulties in retaining and attracting sufficient qualified teachers, keeping class sizes low, providing remediation and enrichment programs which help students succeed, and updating curriculum that will prepare students for the 21st Century.

The Governor recommends \$219.4 million, a ten percent increase, to continue full funding of the state's Foundation Formula for public education, bringing total funding to \$2.3 billion.

2002 Legislative Initiative Funding the Foundation Formula

In order to fund the increasing costs of K-12 education, additional revenues are necessary. The Governor recommends continuing the state's successful use of gaming proceeds and other measures to support education by:

- Increasing admission fees to gaming boats by \$1. The current proceeds from the \$2 admission fee are shared equally by the state and the home dock city or county.
- Removing the current provision that limits to \$500 the amount riverboat gaming patrons may lose during each two-hour cruise. Missouri is the only state that employs a loss limit.
- Increasing the adjusted gross receipts tax on riverboat gaming from 20 to 22 percent. This tax is paid by riverboat operators on the amount lost by patrons.
- Requiring retailers to return to consumers amounts they have overcharged them for unauthorized sales tax collections. Overcharges not returned to consumers will be used to fund the school foundation formula.
- Reducing to 0.5 percent the retailers' discount for filing their sales taxes on time to offset the cost of collection. With advances in computer technology, this incentive is no longer justified.
- Offering time-limited tax amnesty to businesses and individuals who voluntarily agree to settle past debts to the state in return for elimination of interest and penalty charges.
- Introducing a new lottery game.



STATE AID TO LOCAL SCHOOL DISTRICTS
(Not Including Desegregation)
(in millions)

	<u>FY 2002</u> <u>APPROPRIATION</u>	<u>FY 2003</u> <u>RECOMMENDATION</u>
School Foundation Program		
Equity Formula and At-Risk	\$ 2,041.00	\$ 2,260.42
Transportation	162.06	162.06
Gifted	24.87	24.87
Special Education	149.62	149.62
Remedial Reading	11.10	11.10
Early Childhood Special Education	63.16	69.62
Career Ladder	38.34	38.34
Vocational Education	54.57	52.83
Parents As Teachers	36.40	30.31
Subtotal Foundation Program	\$ 2,581.12	\$ 2,799.17
Other State Aid		
A+ Schools Program	\$ 19.30	\$ 19.30
Technology Grants	16.73	12.97
Adult Literacy	0.52	0.52
Caring Communities	1.29	1.00
Safe Schools Grants	10.35	10.35
Proposition C Sales Tax	700.44	691.46
Fair Share Cigarette Tax	23.84	22.93
Free Textbook Fund	75.72	74.23
School Food Program	3.48	3.46
VIDEO Fund	1.09	0
Read to be Ready Grants	6.70	0
Special Ed. Excess Cost/Severe Disability	1.30	0
Early Childhood Program	15.14	15.14
DFS/DMH School Placements	5.26	7.34
Subtotal Other State Aid	\$ 881.16	\$ 858.70
Total State Aid to Local Schools	\$ 3,462.28	\$ 3,657.87

Lottery Proceeds for Education

Article III, Section 39(d) of the Missouri Constitution, approved by voters in August 1992, requires all net proceeds from the State Lottery be appropriated solely for elementary, secondary, and higher education. During Fiscal Year 2003, \$185.8 million will be available from lottery revenues for education. The Governor recommends \$111.3 million to support programs in the Department of Elementary and Secondary Education and \$74.5 million to support programs in the Department of Higher Education. The Governor recommends allocating estimated lottery revenues as follows:

ONGOING BUDGET

<u>ELEMENTARY AND SECONDARY EDUCATION</u>	
• Character Education	\$ 994,998
• A+ Schools	2,218,484
• * A+ Schools	1,594,896
• Safe Schools/Alternative Schools	5,050,000
• Advanced Placement/Dual Credit	860,048
• Information Technology Grants	500,000
• * Information Technology Grants	6,500,000
• * Foundation Formula	23,071,508
• Transportation	
54,747,609	
• * Early Childhood Special Education	6,460,897
• Special Education	3,762,000
• Gifted	198,351
• DFS/DMH Public Placements	2,083,935
• Research Contract	110,880
• Early Grade Literacy	145,000
• State Schools Operating Maintenance and Repair	370,000
• Vocational Rehabilitation	1,400,000
• Minority Scholarships	200,000
• Scholars Academy	158,156
• Test Development	874,321
SUBTOTAL	\$ 111,301,083
<u>HIGHER EDUCATION</u>	
• Four-Year Institutions Operations	\$ 44,870,530
• Four-Year Institutions Operating Maintenance and Repair	20,992,295
• Community Colleges Operations	3,404,617
• Community Colleges Operating Maintenance and Repair	2,291,975
• * Missouri Bibliographic Information User System	189,500
• * Missouri College Guarantee Program	2,750,000
SUBTOTAL	\$ 74,498,917
TOTAL ONGOING	<u>\$ 185,800,000</u>

Riverboat Gaming Proceeds for Education

All riverboat gaming proceeds in excess of the amount transferred to the school district bond fund must be transferred by law to the state school moneys fund for the foundation formula. For Fiscal Year 2003, the Governor recommends transferring \$5.3 million in gaming proceeds to the school district bonds fund for use by the Missouri Health and Education Facilities Authority (MOHEFA) to pay costs associated with school bond issues and credit enhancement. The Governor recommends that the remaining \$312 million be transferred to the state school moneys fund.

2002 Administrative Initiative Gaming Proceeds for Education

Governor Holden's Fiscal Year 2003 budget continues investment of lottery and riverboat gaming proceeds in education. There are continuing questions by voters, educators, and legislators as to whether all mandated proceeds are appropriated where they should be. To ensure Missouri voters that their directive on gaming proceeds is adhered to, Governor Holden will request that the State Auditor annually:

- Conduct an audit of all lottery and riverboat gaming proceeds.
- Review all constitutional and statutory requirements on where proceeds are legally mandated to go.
- Complete these audits by December 31 of each year.

INCREASING ACCOUNTABILITY AND FLEXIBILITY

High Performing Schools

Currently 93 percent of Missouri's public school districts are accredited; 74 percent are meeting performance standards at an accredited level. The Governor will recognize schools and school districts that are identified as demonstrating high student achievement as High-Performing Schools.

Governor Holden recognizes the need to reduce administrative oversight on High-Performing Schools that have a proven record of success. In order to address this, the Governor proposes the Department of Elementary and Secondary Education continue to implement waivers from certain administrative rules and requirements for these High-Performing Schools. This could include exemption from such current requirements as on-site accreditation reviews. Waivers will allow staff and teachers in these districts to focus on classroom instruction. It will also reduce the burden of collecting documentation and spending time organizing for an on-site review.

Educational Accountability

Every child is entitled to a quality education. Governor Holden is committed to fully fund the Foundation Formula, but it cannot continue to be a "blank check." Governor Holden has called on the legislature and school district administrators to make our schools more accountable to Missouri taxpayers.

For schools that are not meeting state academic standards, the Governor proposes accountability measures that require districts to concentrate their resources explicitly on improving their students' educational performance. Governor Holden is committed to improving the quality of education in these Priority Schools and School Districts and believes that this common sense approach to accountability will lead to better student achievement.

Priority schools are identified as:

- Unaccredited school districts.

- Provisionally accredited school districts.
- School districts with one or more academically deficient schools.
- Schools in accredited school districts that do not meet any of the academic performance standards measured by the Missouri Assessment Program (MAP) tests.

Governor Holden recommends refocusing \$1 million of existing funding for the Caring Communities Program to support Priority Schools. Since the tight budget does not allow full funding of existing programs, it is necessary for the state to focus its funding in areas that need it the most. Targeting funding for Priority Schools will help increase student achievement, while building necessary supports with teachers, parents, and the community.

Accountability Compliance Statements

An estimated 90 schools and school districts would currently qualify as Priority Schools or School Districts under the Governor's plan. In order to receive money from the state Foundation Formula, Priority School Districts will be required to submit an Accountability Compliance Statement to the state Department of Elementary and Secondary Education. The goal of the statement is to clearly identify and analyze areas where a school or school district is not meeting academic standards and outline specific, comprehensive strategies for correcting these problems.

To be approved, a Priority District's strategies must be identified to address all of the following:

- Weaknesses in curriculum.
- Teacher and administrator competencies. Teachers and administrators will have several options, but demonstrating competency may require some educators in Priority Schools and School Districts to demonstrate their knowledge and competency before salary increases are granted.

- Redirection of the district's one percent professional development funds toward areas where the district is not meeting academic standards.
- Provision of additional academic support, including more class time for low-performing students who do not pass existing MAP tests and retesting.
- Creation of a School Accountability Council made up of parents, staff, and community leaders.
- Sharing the Accountability Compliance Statement with parents and the community.

A district's performance strategies must also include a plan to reallocate existing resources to address specific academic needs. The plan must incorporate at least one or more of the items, which are proven to increase student performance, from the following list of reform measures.

Quality Teachers

The quality of teaching is one of the chief determinants of a student's academic performance. School districts must provide incentives for teachers to maintain and strengthen their professional skills. Teachers and principals in Priority Schools will be required to demonstrate that they have the knowledge and skills necessary to provide a quality education for their students. The National Board for Professional Teaching Standards (NBPTS)TM certification process presents a rigorous challenge for teachers. Governor Holden supports national certification as an innovative professional development tool for teachers.

To improve teacher quality, the state needs to invest in professional development. The Governor has worked with the State Board of Education to partner with local school districts, using existing programs, to increase the number of teachers meeting national board standards. Teachers who pursue NBPTS

Best Practice Measures

- Reducing class sizes in academic problem areas. This allows teachers more time for individual student attention.
- Providing preschool and full day kindergarten programs. This enables young children to get off to a good start.
- Extending learning time for low-performing students through after-school programs, summer school, and one-on-one tutoring. This gives under-performing students the help they need to improve their chances of success.
- Hiring advanced teacher specialists, such as National Board Certified teachers, in academic problem areas. Financial incentives will be provided to these specialists. This provides additional attention to those subject areas where improvement is necessary to address poor achievement.
- Reducing school size or establishing smaller schools within a school. This creates opportunities to improve learning environments.

2002 Legislative Initiative Accountability for Missouri Schools

To ensure Missouri taxpayer investment in public schools provides a quality education for all children, Governor Holden proposes legislation to create an accountability system that rewards High-Performing Schools and focuses existing resources on schools that are not meeting academic standards. The Governor's proposal will:

- Outline means for recognizing High-Performing Schools and School Districts.
- Allow the Department of Elementary and Secondary Education to waive certain rules and administrative reporting requirements for school districts with High-Performing Schools.
- Provide criteria for identifying Priority School Districts and Priority Schools that do not meet state accreditation or academic standards.
- Require Priority School Districts to submit an Accountability Compliance Statement. Statements must identify areas of underperformance by school, grade, and content area. Specific strategies for correcting deficiencies must be included.
- Require Priority Schools to address deficiencies, improve teacher and administrator competencies, and reallocate resources to address academic performance needs.
- Allow the State Board of Education to establish standards to evaluate Accountability Compliance Statements.
- Direct the Department of Elementary and Secondary Education to withhold state funds

certification are eligible to receive about three-fourths of the cost of the demanding application and assessment process. Many school districts cover the balance of the cost of the certification process because they know it is an excellent and economical way to encourage, recognize, and reward teachers.

Teachers in Career Ladder districts who have demonstrated their expertise and commitment to excellence through the NBPTS process are eligible to receive salary supplements of up to \$5,000. This gives teachers the option of meeting these standards in lieu of other Career Ladder requirements. Non-Career Ladder districts can receive state approval to receive matching reimbursement for the additional salary supplement for teachers achieving national board certification. Priority Districts will also be able to use a portion of new federal Improving Teacher Quality grants to assist teachers in achieving certification. This partnership has maximized the use of existing Career Ladder funding to address teacher quality and NBPTS certification.

As of January 2001 Missouri has 75 NBPTS certified teachers. The Governor maintains his goal of gaining certification for 1,000 Missouri teachers. Legislative authority and additional funding will be required to expand the certification program statewide. Meanwhile, the Governor will continue to work within existing budgetary means and authority to maximize the availability of NBPTS certification for teachers in Priority Schools.

The Governor's Fiscal Year 2003 budget includes the following to enhance teacher quality:

- \$23.2 million in federal funds for the Improving Teacher Quality Grants Program. This funding implements professional development activities at the local level which are focused on improving student achievement.

- \$14.9 million in federal funds for the Reading First Grant Program. The program will provide resources to school districts for teacher professional development with the focus on reading instruction. It serves students in the primary grades and supplies reading materials to be used for instruction.
- \$18.8 million, an additional one percent of the total foundation formula appropriation, will be targeted to statewide areas of critical need. One percent of a school district's foundation formula money is currently allocated for professional development for teachers.

School-Health Partnerships

If children do not feel well or cannot get basic health services, their ability to learn is greatly impaired. Missouri is participating in a National Governors Association initiative to improve the health for all Missouri school children through a coordinated school health delivery system. In 2002 Governor Holden will form a team to determine the current status, structure and strengths of, and barriers to, coordinated school health programs in all state agencies. The team will then write a comprehensive action plan to address health-related barriers to children learning. The plan will guide a statewide effort to improve school health services.

Educational Services for Children with Special Needs

The Fiscal Year 2003 budget includes \$11.5 million to provide educational services for children with special needs. Governor Holden recommends:

- \$6.5 million for Early Childhood Special Education for educational services provided to three- and four-year-old children with disabilities, bringing total state funding to \$69.6 million.
- \$2.9 million to provide early intervention services for developmentally delayed infants. This increase brings total state funding to \$9.1 million.
- \$2.1 million for payments to public schools for educating students placed by the Division of Family Services and the Department of Mental Health.

Reader's Digest Grant to Improve Student Achievement

Effective educational leadership in our schools is one of the critical ingredients for improving student achievement. Missouri is fortunate to be one of 15 states selected by the Wallace-Reader's Digest Funds to participate in a national effort to help superintendents and principals improve student learning. The state will receive \$250,000 over three years to develop innovative policies and programs for recruiting, training, and retaining school principals. The project is being led by a national consortium consisting of the Council of Chief State School Officers, the National Governors Association, the National Conference of State Legislatures, the National Association of State Boards of Education, and the Education Commission of the States.

MISSOURI BUDGET AND LEGISLATIVE AGENDA

Living in a Safe, Secure Missouri

**"The American way of life will go on,
stronger and safer than ever in Missouri."**

Governor Bob Holden

Governor Holden has pledged to protect the citizens of Missouri. It is one of the most important obligations of state and local governments. Missourians should be able to feel safe in their neighborhoods and communities throughout the state. The Governor's Fiscal Year 2003 budget includes funding to address homeland security. In addition, the Governor proposes funding for the Department of Corrections, services for veterans, and several initiatives to improve safety throughout the state. In his first year, Governor Holden accomplished the following to make Missouri a safer place to live and support the state's veterans:

- Signed legislation to strengthen the state's driving while intoxicated laws. The legal limit for blood alcohol content was lowered to .08 and stronger penalties were established for repeat offenders. As a result, the diversion of \$8 million in federal highway funds was avoided, and Missouri will qualify for an estimated \$3 million in federal incentive funds. House Bill 302 was signed into law June 12, 2001.
- Signed legislation to improve services for crime victims. Governor Holden proposed better coordination of state services by establishing an Office for Victims of Crime to assist crime victims, advocates, and local communities in their efforts to provide for fair and just treatment of victims. Senate Bill 267 was signed into law July 2, 2001, and will provide a central point of contact for crime victims in Missouri. The work of providing statewide victim notification efforts is already under way.
- Signed legislation to prevent criminals, with outstanding warrants for their arrest, from being released from jail and committing additional crimes. Jake's Law, House Bill 144, was signed into law May 31, 2001. The bill is named in memory of Jake Robel who died tragically in February 2000.
- Budgeted \$2.6 million to combat illegal drugs through education, prevention, treatment, and law enforcement.
- Signed legislation to ensure that every peace officer in the state has the same minimum training of 470 hours and to require continuing education for all officers. House Bill 80 was signed into law July 2, 2001.
- Signed legislation to toughen the state's laws dealing with methamphetamine and criminalize the use of so-call "club drugs." House Bill 471 was signed into law on June 18, 2001.
- Signed legislation to pay for medallions and certificates in recognition of World War II service. House Bill 207 was signed into law on May 23, 2001.
- Signed legislation to award honorary high school diplomas to all honorably discharged World War I, World War II, and Korean War veterans who did not complete their education after the war. House Bill 441 was signed on July 12, 2001.

HOMELAND SECURITY

The events that unfolded on September 11, 2001, were the deadliest attacks ever on American soil. Missourians grieved with the nation and united in support of each other and our great country. The tragic events of that day have made the entire nation more sensitive to personal, community, state, and national security concerns.

In many respects, Missouri was the first state in the nation, outside of the states directly attacked, to respond to the events of September 11. Two weeks after the bombings in New York and Washington, D.C., Governor Holden appointed a special advisor to review Missouri's security efforts. The Governor's advisor, Colonel Tim Daniel, will coordinate with the National Homeland Security Director, Governor Tom Ridge, and work on the following priorities:

- Reviewing the state's existing emergency response plans and making necessary changes.
- Leading and coordinating efforts of the Governor's Security Panel.
- Supporting the Governor's effort to assure Missouri gets its share of federal assistance to address state and local security issues.
- Reviewing federal law to determine whether it is inconsistent with Missouri law with regard to the severity of penalties for terrorists or related issues.

Missouri Security Panel

In early October, the Governor ordered the formation of a Missouri Security Panel, composed of statewide elected officials, officials from state government, local law enforcement, private citizens, and other relevant officials. The panel is headed by the Special Advisor to the Governor on Homeland Security.

Governor Holden directed the panel to assess the readiness of the state and its communities to deter, prevent, and appropriately respond to acts of terrorism in Missouri. It will make recommendations to the Governor and the

General Assembly. The panel is exploring the state's needs while creatively developing the most cost-effective ways to:

- Enhance communication between government agencies and the media, the business community, and the citizens of the state.
- Provide a short-term mechanism for leadership decisions. The panel will conduct a security audit to identify potential public and private targets and determine which facilities require additional precautions.
- Improve public safety around the state.

The panel has been hard at work developing ideas to improve the state's security. The Governor expects recommendations from the panel by the end of January 2002, in the following areas:

- Health, Medical and Environment – to ensure a comprehensive public health response that protects Missouri citizens, food, and the environment from terrorist attacks.
- Government Operations and Facilities – to prepare Missouri for deterrence, prevention, and prosecution of terrorism.
- Transportation – to assess critical transportation assets.
- Utilities – to identify critical assets such as water systems, dams, and electrical stations.
- Critical Technologies – to identify significant vulnerabilities in information operations around the state, including state government computer systems.
- First Responders – to design updated training and equipment.
- Public Awareness and Public-Private Partnerships – to promote partnerships to enhance security and improve public awareness and communication with the public.

Administrative Initiatives to Address Missouri's Immediate Security Needs

In addition to the work of the security panel, the Governor is working with state departments to immediately:

- Create a database to track and catalog all terrorist threats made throughout the state. This database will assist state and local law enforcement in preventing acts of terrorism within the state, and can be used for investigative purposes in the event that there is an attack.
- Create a biological agent registry within the state Department of Health and Senior Services. This will enable the state to know the location of such substances, their quantity, and how they are stored.
- Develop a memorandum of understanding among schools, local law enforcement, and emergency management officials. This will ensure that all relevant parties know in advance that law enforcement and emergency management officials have blueprints, floor plans, access codes, and other items that may be needed quickly in the event of an emergency; what communications procedures should be followed; and how to manage transportation issues.
- Conduct an administrative review of all state web-based information and materials to ensure critical information concerning state buildings and infrastructure is not readily available over the Internet for criminal use.
- Plan for an annual, statewide-readiness drill. It is vital to determine that plans made by state security experts will work. An annual test of procedures and new security initiatives will make clear that Missouri is prepared in practice and not just on paper.
- Provide 700 MHz bandwidth communication for public safety. This technology helps ensure that law enforcement agencies can share information quickly and will move the state forward in building a seamless communication web for all law enforcement agencies.

State Public Health Laboratory

The State Public Health Laboratory plays a crucial role in detecting disease outbreaks and quickly identifying a possible bioterrorism attack. It is the starting point for public safety and public health responses to an emergency incident. As the number and types of tests performed have increased in recent years, its small and inflexible space, equipment, and ventilation system have proven inadequate. Occurrences after September 11 have placed additional strains on the lab and its staff. For instance, the lab dealt with more than 135 separate occurrences of suspected anthrax exposure. To equip the laboratory with the tools and facilities to deal with recent changes in testing, Governor Holden proposes the state's Board of Public Buildings issue revenue bonds to build the new state health lab currently being designed. Construction will begin in 2003 as originally planned.

Security Measures Taken to Protect Missourians

Since September 11 Governor Holden has worked hard to ensure the state is prepared for attacks against the citizens of Missouri. The Governor has:

- Appointed a Special Advisor on Homeland Security to coordinate Missouri's security efforts.
- Traveled to Washington, D.C. to meet with Governor Tom Ridge, National Homeland Security Director, and members of Missouri's congressional delegation to advise them on Missouri's security concerns; advocate for federal funding; and emphasize the need for state, federal, and local government cooperation.
- Formed the Missouri Security Panel to assess the state's security needs.
- Called to duty over 500 Missouri National Guard soldiers to protect potential Missouri targets, reinforce security at Missouri's eight commercial airports, protect Missouri's two nuclear power facilities, and assist with homeland security efforts across the nation.
- Released funding to the Department of Health and Senior Services to meet the increased demand for anthrax testing and prepare for other bioterrorist attacks.
- Redirected approximately \$600,000 to address homeland security, primarily to provide security at major state office buildings around the state.
- Worked with the state Attorney General to protect Missourians from price gouging and prosecute those violating Missouri's price gouging rules. Following the September 11 attacks, 48 gas stations around the state paid over \$60,000 in fines for rule violations.
- Directed the Department of Health and Senior Services to work with federal and local authorities investigating the discovery of anthrax at the U.S. Postal Service's Stamp Fulfillment Center in Kansas City during November 2001.
- Sponsored a Special Operations Symposium for firefighters, emergency management officials, and hazardous materials specialists from around the state.
- Directed the Department of Public Safety to increase inspection of hazardous materials and conduct a threat assessment on strategic bridges around the state.
- Directed that additional security measures be taken at large state government facilities throughout the state.

Budget Initiatives to Address Missouri's Most Pressing Security Needs

The Governor recommends select Fiscal Year 2003 budget items to address basic security needs and improve the state's ability to respond in emergency situations, including:

- \$2.5 million to fund the security panel's recommendations and address any additional security issues that emerge during the next fiscal year.
- \$2.4 million in redirected core funding to make security improvements at the State Capitol and Harry S Truman State Office Building in Jefferson City.
- \$909,894 for the Capitol Police to provide enhanced security to buildings in the state's Capitol Complex in Jefferson City.
- \$764,855 for the Department of Health and Senior Services to improve the high-alert biological, chemical, and radiological surveillance system; expand the capacity of the State Health Laboratory; analyze potential health threats; and provide timely responses to law enforcement. These enhancements will improve the readiness of the state's public health system.
- \$600,000 to study the ability of the state's technology systems to continue to operate basic systems in the case of a catastrophic event.
- \$384,213 to provide control over deliveries made to the Truman State Office Building and the State Health Laboratory in Jefferson City. Also, with this funding, security surveillance will be enhanced at state-owned facilities throughout the state and maintained on a 24 hour/7 day per week basis.
- \$275,905 to upgrade security at the Missouri Supreme Court Building in Jefferson City and Appellate Court buildings in Kansas City, St. Louis, Poplar Bluff, and Springfield.
- \$150,000 to support the continued efforts of Task Force One, the state's emergency response unit that was sent to New York to assist with search and recovery efforts.

2002 Legislative Initiative Homeland Security

To enhance the safety of Missouri citizens, bring to justice anyone who threatens that safety, and update our laws to make sure the state is prepared for potential terrorist activities, Governor Holden recommends legislative initiatives that:

- Close a legal loophole to ensure that anyone who makes a false terrorist threat is charged with a felony. The current statute does not cover all hoaxes or situations such as an anthrax scare that cause a building to be quarantined.
- Penalize gasoline retailers that victimize consumers by inflating their prices to profit from a state or national emergency. The public should be protected from situations like the one following the September 11 attacks where gas stations inflated gas prices to as much as \$9.99 a gallon. Those guilty of price gouging can be forced to pay restitution to customers and will face civil and criminal penalties.
- Establish a felony crime for persons having devices with intent to manufacture bombs. Currently, no statute directly addresses the issue of constructing a bomb or having the necessary materials to do so. Criminals who are caught in the preparation of committing such a heinous act must be punished.
- Establish a flexible cap for highway funds that support the State Highway Patrol. Currently funds are capped at the Fiscal Year 2001 level. A flexible cap is a fiscally responsible way to increase security on our roads without placing additional burdens on the state general revenue fund.
- Increase penalties for introducing contaminants into public water systems.
- Prohibit the transport of hazardous loads through tunnels.
- Allow the temporary licensure of health care workers in emergency situations.
- Expand the state's Emergency Volunteer Program to include man-made catastrophic events.
- Permit the closure of state waterways in the event of an emergency.

Missouri Domestic Violence Task Force

Executive Order 01-13, signed by Governor Holden on August 10, 2001, established and created the Missouri Domestic Violence Task Force to develop solutions for domestic violence in Missouri.

The Task Force was established to:

- Inventory state funding and resources dedicated to domestic violence.
- Enhance public and private resources.
- Investigate opportunities to expand domestic violence prevention and intervention services.
- Develop a coordinated and integrated strategic action plan that will advance the needs, policies, and priorities set by the Task Force.

A Preliminary Progress Report was presented to Governor Holden with each of the Task Force's recommendations for legislative action during the Second Regular Session of the 91st Missouri General Assembly. Initial recommendations made by the Task Force to Governor Holden for addressing domestic violence through legislative action during the 2002 session include:

- Extending the statute of limitations for the prosecution of rape and sodomy.

- Amending the relocation provisions in the dissolution and child custody statutes in Chapter 452 to provide protections for parents and children who are victims of domestic violence and seek to relocate after a divorce. The Missouri House Interim Committee on Relocation is currently holding hearings and investigating Missouri's relocation statute.

- Asking the General Assembly to clarify the enabling legislation that attempted to create the grant program for domestic violence services in unserved communities. An error in this section of law, 455.300 RSMo, forced Governor Holden to veto the \$1 million appropriation for grants that would have gone to the Department of Social Services to provide domestic violence services for Missouri communities without assistance programs. These services would include outreach, advocacy, prevention, and community education services.

- Removing the statutory "sunset clause" that ended the ability of a county governing body to establish a \$2 civil case filing fee designated to provide operating revenues for domestic violence shelters. This amendment was approved by both the Missouri House and Senate in 2000 but failed to achieve final passage. Further amendment of this section of law should expand the eligibility for these funds to non-residential, non-profit domestic violence programs.

2002 Legislative Initiative Statute of Limitation for Rape and Sodomy

Missouri law classifies most crimes. This classification systematically determines the amount of time a prosecutor has to file a specific criminal charge. Rape and sodomy are currently unclassified crimes, leading to confusion concerning the amount of time a prosecutor has to charge a person with those crimes. Two of Missouri's Courts of Appeals have ruled differently on the issue. Meanwhile, sophisticated investigation techniques, such as genetic blueprinting, are continually increasing law enforcement's ability to solve crimes that were perpetrated years ago. In order to resolve this discrepancy and make sure that a perpetrator can be brought to justice whenever the evidence is uncovered, Governor Holden calls on the General Assembly to pass legislation that, for the purposes of the statute of limitation, classifies rape and sodomy as Class A felonies. For this classification, prosecution can be commenced at any time. There should be no statute of limitation on these heinous crimes.

Office of Victims of Crime

Within Missouri state government, funding for services to victims is spread across six different departments. State bureaucracy should not be a hindrance to victims of crime or those at the local level assisting victims and their families. Last year Governor Holden proposed, and the General Assembly enacted, Senate Bill 267 which established an office in the Department of Public Safety to:

- Serve as a clearinghouse for victim assistance and victims' rights issues.
- Provide a central point of contact for crime victims in the state of Missouri.
- Serve as a coordinating agency and ongoing point of contact for the statewide network of crime victim service providers.
- Provide training and technical assistance for new and existing victim services programs.
- Coordinate a statewide automated victim notification system.
- Develop, coordinate, and implement a statewide response in the event of a catastrophic crime in order to meet the immediate needs of the crime victims resulting from such an incident.

Governor Holden's Fiscal Year 2003 budget includes:

- \$413,481 to implement the Office of Victims of Crime established in Senate Bill 267 (2001). The office will assist crime victims, advocates, and local communities to provide fair and just treatment of crime victims.

Missouri Protectors

Missourians have served with distinction in the armed forces of our nation, placing their lives at risk in order to preserve our freedom. The U.S. Veterans Administration reports that there are over 569,000 veterans in Missouri. The events of September 11 were yet another reminder of the debt this country owes to the men and women who have answered the call to assure freedom. Governor Holden recommends the following to honor Missouri veterans and increase the capability of the Missouri National Guard:

- Working with Lt. Governor Joe Maxwell, chair of the Veterans Benefits Awareness Task Force, to locate and assist these veterans in claiming the benefits they are owed. There are over 35,000 Missouri veterans who are entitled to more than \$350 million per year in federal benefits.
- \$5.3 million in federal funds for planning, design, and construction of a new armory in the southern part of the Kansas City area. Missouri was chosen to be the home for a new National Guard Engineer Company. Currently there is no armory in this area to accommodate the unit and its equipment.
- \$10 million for renovation of the World War I Liberty Memorial in Kansas City. This funding is included in Governor Holden's supplemental recommendations for Fiscal Year 2002.
- \$2 million for veterans' memorial renovation and construction grants.
- \$487,134 for resident care services at the new Mt. Vernon Veterans' Home and a new dementia wing of the St. Louis Veterans' Home.
- \$128,468 for two new veterans' cemeteries at Bloomfield and Jacksonville, and to expand the Springfield Veterans' Cemetery.

Enhancing Public Safety

The state also helps ensure public safety through prevention and treatment of substance abuse, treatment of persons whose mental disabilities make them dangerous to themselves or others, and custody and treatment for individuals judged to be sexually violent predators. Governor Holden's Fiscal Year 2003 recommendations include:

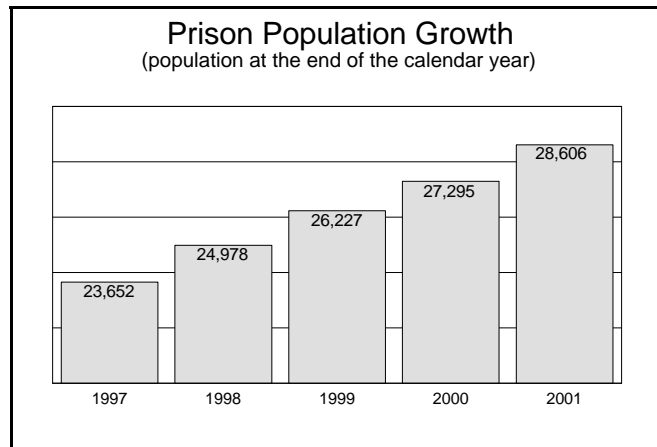
- \$1.4 million to expand the treatment program for sexually violent predators at the Southeast Missouri Mental Health Center. In Fiscal Year 2003, the number of persons detained or committed to the program is expected to increase by 45.
- \$1.9 million in federal funds to provide housing to homeless Missourians with mental disabilities and substance abuse problems.
- \$1.2 million in federal funds to pilot a school-based drug prevention and intervention program for youth and expand and ensure the effectiveness of community-based drug prevention services.
- \$127,000 for the Attorney General to consult outside experts in cases involving sexually violent predators.

Keeping Prisoners Behind Bars

Missouri law contains some of the toughest anticrime provisions in the country. As a result, Missouri now requires dangerous, violent criminals to serve longer sentences than ever before. These "get tough"

provisions have resulted in safer Missouri communities and a rapidly expanding prison population. During the last seven years, Missouri's inmate population has grown by 10,695 inmates. The Governor will meet the public's demand for protection from dangerous and violent criminals. The Fiscal Year 2003 budget provides funding for new prison beds and less expensive alternatives to incarcerate non-violent offenders, including:

- \$30 million to open the Eastern Reception and Diagnostic Correctional Center in Bonne Terre.
- \$10.2 million to maintain the current capacity and open 288 additional beds at the Southeast Correctional Center in Charleston.
- \$3.6 million to provide temporary housing units needed until additional space becomes available.
- \$13.6 million to meet the increased costs of the projected inmate population in Fiscal Year 2003.
- \$540,000 for planning and design for seven new community corrections centers. Offenders with no previous criminal convictions and those at risk for revocation for technical violations of probation or parole can be more effectively supervised in their local community. Community correction centers will be secure facilities that provide a cost-effective alternative to incarceration.
- \$129,497 to conduct warrant checks on prisoners prior to release as required by Jake's Law (House Bill 144, 2001).



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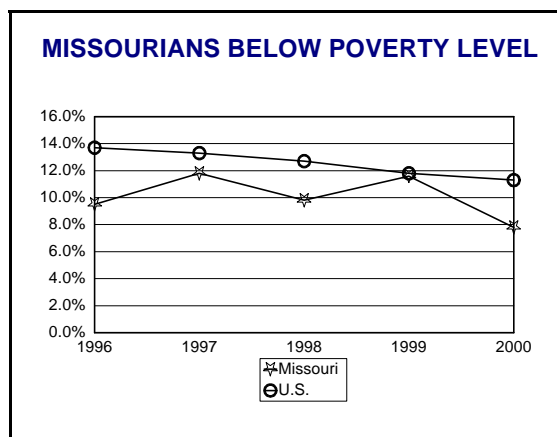
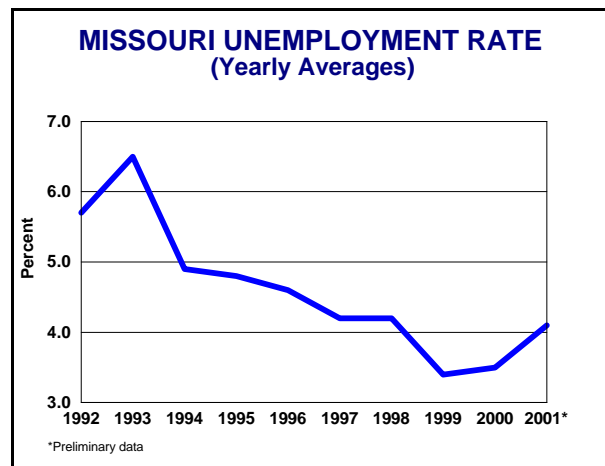
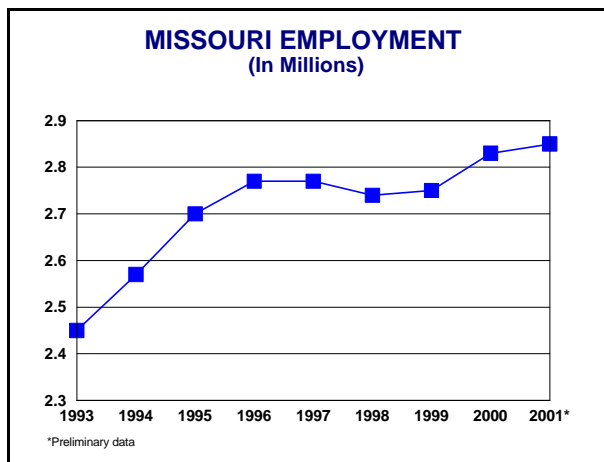
MISSOURI BUDGET AND LEGISLATIVE AGENDA

Families Achieving Financial and Job Security

“For Missouri’s economy to grow, for our quality of life to improve, and for our children to have an opportunity to reach their full potential, we need to provide opportunities for Missouri families to build economic security and encourage businesses to invest in our communities.”

Governor Bob Holden

Missouri’s unemployment rate of 4.4 percent remains well below the national average of 5.8 percent. In addition, Missouri’s poverty rate has stayed below the national poverty rate for several years, and dropped to 7.8 percent in 2000 — over three percentage points below the national rate. Given the national recession and the current economic climate stemming from the uncertainty surrounding the tragic events of September 11, Missouri must focus its recovery efforts on key areas that will boost the economic security of its families. Missouri’s economic future depends on the investment choices made today. In Fiscal Year 2003, Governor Holden proposes continued investment in job services for Missouri workers, business climate enhancements, and community revitalization.



In his first year, Governor Holden accomplished the following to make Missouri an economically secure place to live and work:

- Signed legislation to better utilize the state's job training incentives to provide training to new employees of life sciences and medical research companies. Consortia of small businesses with similar training needs will now be able to submit one shared application, and investments in technology can be considered under the Customized Training Program. Senate Bill 500 was signed into law June 20, 2001.
- Signed an Executive Order supporting downtown revitalization and historic preservation efforts in cities and towns of all sizes across Missouri. The order will encourage new state buildings and leased facilities to be located in central downtown districts throughout the state.
- Signed legislation creating the Farmland Protection Act. The bill will help create additional jobs and opportunities for smaller entrepreneurs through the Agricultural Product Utilization Contributor and New Generation Cooperative Incentive Program. Senate Bill 462 was signed into law June 28, 2001.
- Supported the development of the first State Technology Plan, which was designed to suggest the best uses of the state's limited funds to further economic development for the citizens and businesses of Missouri. The plan addresses the types of technology to be targeted, funding to develop these technologies, and the skills necessary for a technology-based workforce.
- Budgeted \$1 million for the University of Missouri Technology Park at Fort Leonard Wood. This project will enable continued economic growth and increase the number of technology based businesses in Missouri.
- Appointed the One Missouri, One Agriculture Task Force to examine ways to improve the state's agricultural industry.
- Signed an Executive Order establishing a life sciences program for Missouri. The program will leverage additional private and public funding resources, provide research opportunities for Missouri's colleges and universities, enhance food safety, increase agricultural production, enrich the state's environment, and improve the health of citizens.
- Budgeted \$21.5 million in Fiscal Year 2002 to enhance Missouri's life sciences infrastructure.

IMPROVING SERVICES THAT FIND GOOD JOBS FOR MISSOURI WORKERS

Governor Holden is committed to taking additional steps to strengthen the economy by maximizing our existing resources, enhancing and redesigning existing programs, and making state services more effective and accessible to more Missourians.

Unfortunately, due to the current recession and economic decline after the events of September 11, unemployment in Missouri is up as compared to a year ago. At the same time, the first deadline for ending payments to citizens who are served through the federal Temporary Assistance for Needy Families Program (TANF) is July 1 of this year. Governor Holden recognizes that the state must be more aggressive in preparing Missouri's workforce for the new economy of the 21st Century.

The Governor is committed to improving services to all Missourians who need assistance finding jobs, accessing job training programs, or pursuing new career plans. To increase opportunities for economic security for Missouri's families, improve the services available to assist those searching for work, and help employers locate qualified workers quickly, the Governor will:

- Strengthen partnerships among state agencies to ensure services provided to Missourians are coordinated and not duplicated. The Missouri Training and Employment Council (MTEC), the State Board of Education, and the Coordinating Board for Higher Education will send a joint plan to the Governor later this year. The plan will recommend ways the state can establish a coordinated system of "lifelong learning" for our workforce that helps us to weather future economic crises and to take advantage of new jobs in emerging industries.

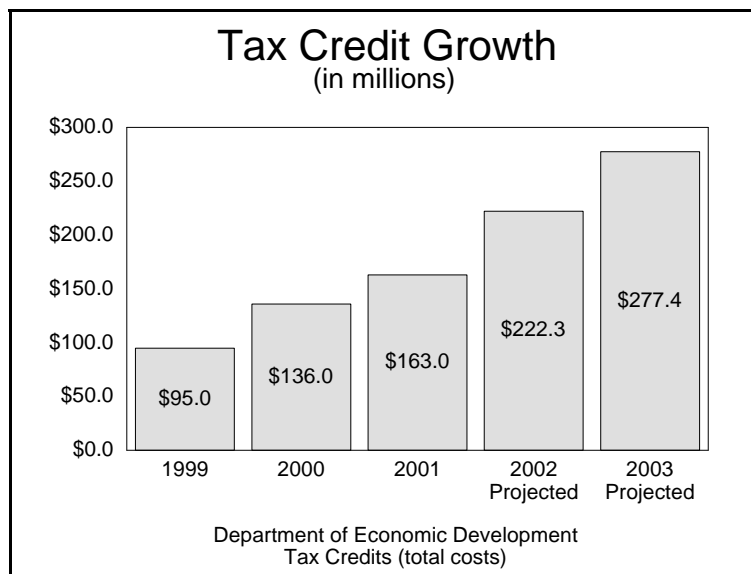
- Activate a new website - **GreatHires.org** - to provide access to job services 24 hours a day, 7 days a week, from any location. Employers can use the site to post job openings; job seekers can post resumes. Career counseling, information on education and training, and resources for workers will be available through the website.
- Make job services available in multiple languages. Web-based resources will be offered to Missourians in other languages, beginning with Spanish.
- Place a new emphasis on Missouri Career Centers, which are located across the state and provide citizens with a full range of career services. These centers are ready to assist Missourians with job training opportunities, help with interview and resume skills, and match job seekers with potential employers. Missouri Career Centers can also screen potential applicants for employers.
- Provide a new toll-free jobs service line – **1-888-728-JOBS**. This number can be called from anywhere in the state, and it will connect the caller with the closest Career Center. It will allow Missourians quick access to job counselors who are familiar with the worker's community and have information about jobs across the state.

REFORMING TAX CREDIT PROGRAMS TO PRODUCE GREATER BENEFIT FOR ALL MISSOURIANS

Missouri is fortunate to have economic and community development programs that help create high quality jobs, increase personal income, and build stronger communities. The state's development strategies directly or indirectly touch the lives of all Missouri citizens.

One important element of Missouri's development programs is the use of tax credits that are designed to leverage private sector investments, that would not have occurred otherwise, in the state's businesses or communities. Even though each tax credit program was enacted to achieve a specific goal, the state should know whether all the programs continue to produce a good return on the public's investment through foregone tax revenue.

Good tax credit investments in high-quality, high-paying jobs; in the productivity of firms and farms; and in community quality of life will bring economic and other benefits to the state over time. The amount of redeemed development related tax credits has grown – from \$95 million in Fiscal Year 1999 to a projected \$222.3 million in Fiscal Year 2002 and a projected \$277.4 million in Fiscal Year 2003. At the same time, state revenue growth is rising only slightly. Governor Holden supports a comprehensive review of Missouri tax credit programs.



TAX CREDIT REFORM

To maximize and ensure the state's return on its investment, Governor Holden will direct the Department of Economic Development and its Ad Hoc Task Force on Tax Credits to work with the General Assembly to:

- Reform and modernize the state's 31 development related tax credit programs, and to prioritize investments in job creation and redevelopment in targeted rural communities, urban centers, and inner cities. The state's three target industries of life sciences, advanced manufacturing, and information technology should also be prioritized in any proposed reform package. Existing programs should be evaluated and recommendations to alter or eliminate them should be based on the following criteria:

Effectiveness – Are credits producing good results; can the desired results be better defined? Are there better ways to target credits to needy urban centers/ inner cities and rural communities?

Efficiency – Is it possible the credits could get the same or greater benefit at less cost to the state?

Greater administrative uniformity and clarity – Can the existing programs be streamlined and simplified?

Cost – Does the program have a predictable annual cost? If not, can the program be altered to achieve this?

- Explore ways to reinvest a portion of any savings associated with tax credit changes in the creation of high wage jobs, assistance to small businesses, and technology development in inner cities and rural communities.

ENHANCING MISSOURI'S BUSINESS CLIMATE

Missouri experienced challenges in 2001 as the longest economic expansion in U.S. history came to an end. Despite rising unemployment rates and the loss of jobs, personal income continued to grow at a rate of .73 percent, second among Missouri's neighboring states. Further, in 2001, more than 100 businesses assisted by the Department of Economic Development announced plans to move or expand into the state resulting in additional jobs for Missourians.

During July and August, Governor Holden convened nearly 300 business, community, academic, and government leaders in three roundtables to develop strategic plans for the key industries of life sciences, advanced manufacturing, and information technology. All strategies developed from these three roundtables contributed to the State Technology Plan.

Life Sciences - Focused on identifying strategies for attracting life sciences companies.

Advanced Manufacturing - Addressed how to encourage companies to adopt advanced manufacturing practices with more speed, newer technologies, and higher skilled workers. This industry accounted for eight percent of Missouri wages in 2000, with an average wage per job of more than \$52,000.

Information Technology (IT) - Explored how to expand the information technology industry and how to use information technology to increase the competitiveness of all Missouri businesses, regardless of geographic location. The IT sector generates high-paying, high-technology jobs and accounted for over eight percent of our gross state product in 1999 and the employment of over 100,000 Missourians. Other types of businesses in Missouri will continue to prosper and grow, but the aforementioned three areas are the foundation upon which the state can build economic success for Missouri families in the 21st Century. The Governor will continue to target the state's services to maximize its benefit from investment in its targeted industries.

Life Sciences: A Priority for 2003

This year the Governor will continue to invest in the life sciences to enhance Missouri's future economic potential. Missouri is positioned to be a world leader in the life sciences industry. Overall, the life sciences industry contributes an estimated \$23 billion to Missouri's economy. Over 300 life sciences firms in the state directly support 170,000 jobs.

Life sciences represent the cornerstone around which the state can build a strong, competitive economy and provide for a healthy citizenry. These efforts will also help Missouri's vital agricultural sector. Missouri must create a climate where individuals and businesses can successfully commercialize leading-edge technology to create the next generation of life sciences products and services. It is crucial to invest in Missouri universities to develop our native talent and provide facilities for students and faculty to conduct groundbreaking research. The Fiscal Year 2003 budget includes \$21.6 million for life sciences research and development.

REVITALIZING URBAN CENTERS AND RURAL COMMUNITIES

Governor Holden believes that a strong Missouri economy is based on both healthy urban neighborhoods and rural communities across the state. As Missouri faces the current recession, the challenges rural and urban communities face are often more similar than different. The state will achieve economic improvements by implementing strategies that produce economic security, opportunity, growth, and a high quality of life for all Missouri citizens.

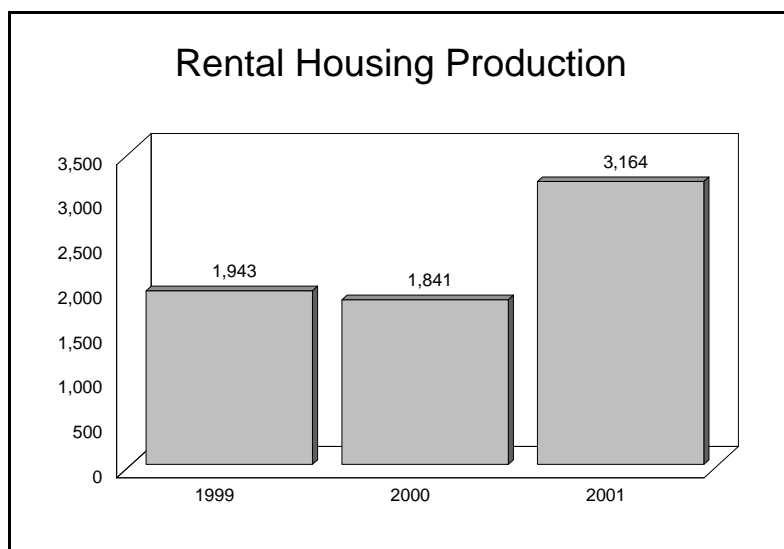
Economic Security through Affordable Housing

The Missouri Housing Development Commission (MHDC) administers programs that provide low-interest financing and federal and state housing tax credits to encourage the development of affordable rental housing in Missouri. Affordable housing contributes significantly to economic security, stable families, safe communities, and quality of life. In the last three years, MHDC has been able to assist in the development of 6,948 affordable housing units. The total construction and development costs for all MHDC rental housing units under this program is estimated to be \$231 million in 2001; a major contribution to economic development and job creation efforts of the state. Governor Holden is committed to providing incentives for the continued development of high-quality, low-cost housing in urban and rural areas.

Renovation and Redevelopment of Property and Infrastructure

Community landscapes are being improved through targeted state investments. These investments eradicate structural blight, remove contaminated and abandoned buildings, rehabilitate existing structures, and contribute to the redevelopment of public areas.

The most notable state investment in renovation and reuse is through the nationally recognized Historic Tax Credit Program, which preserves historic commercial and residential structures in all parts of Missouri for future generations. Last year historic preservation investments of Missouri homeowners and businesses were leveraged by \$34 million of state tax credits; that amount is projected to reach \$65 million by the end of this fiscal year. Likewise, through the Brownfield Redevelopment Program, urban and rural communities have fewer contaminated and abandoned structures as a result of nearly \$4.5 million in state investments during Fiscal Year 2001 and a projected investment of \$7 million in Fiscal Year 2002.



The Missouri Development Finance Board approved investments of \$8.8 million in leveraged incentives designed to build public infrastructure projects, contributing to the revitalization of communities throughout the state. The Neighborhood Preservation Program contributed \$500,000 in investments during Fiscal Year 2001 to help rehabilitate owner-occupied housing and construct new owner-occupied homes in areas of transition across Missouri. That amount is projected to grow to \$8.5 million during Fiscal Year 2002.

Governor Holden is committed to continuing targeted state investments that will produce environmentally safe and hazard-free communities, improve public facilities, and preserve historic structures that will enhance the quality of life for all Missourians and attract new private sector investments and development.

One Missouri, One Agriculture Task Force

Agriculture has been the foundation of Missouri's economy for generations. To grow in the new 21st Century economy, Missouri's farms and agribusinesses need access to capital, new and high value markets, and a favorable business climate. To develop a plan to advance development in Missouri agriculture, Governor Holden appointed the One Missouri, One Agriculture Task Force to study the state's needs and assets, and chart a course for the future. The Task Force identified four priorities for Missouri's farm economy:

- Create a favorable business climate.
- Expand investment in production and marketing opportunities.
- Increase access to capital for business creation and expansion.
- Build organizational and communications infrastructure to better serve the agricultural community.

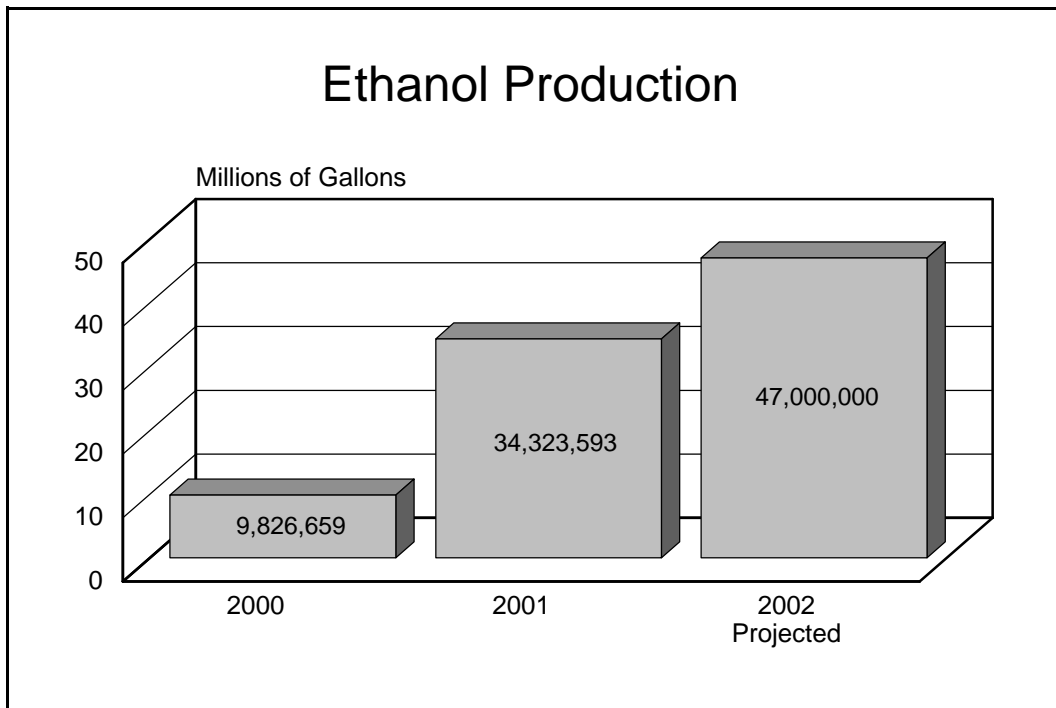
To begin meeting these objectives and create a stronger agricultural economy, the Governor recommends:

- Increasing coordination among the Missouri Department of Agriculture, the Department of Natural Resources, and other agencies regarding environmental regulations, economic development programs, and mapping the state's assets for business and rural expansion.
- Investing in market expansion, creating standards for high value organic production methods, and developing infrastructure for agricultural advances in life sciences.
- Evaluating the state's agricultural incentive programs to ensure they create maximum opportunities for targeted entrepreneurs.

Expanding Farm Business Enterprises

The viability of Missouri's small farms and rural communities is at risk if farmers do not have access to capital to seek new ventures that add value to the agricultural products they produce. Ethanol-based fuel improves air quality and increases the productivity of Missouri farms. The Missouri Ethanol Producer Incentive Fund provides economic subsidies to qualified ethanol producers. Two plants, in Macon and Holt counties, process 14 million bushels of corn that produce an estimated 37 million gallons of ethanol each year. To help farmers add value to their commodities, the Governor recommends:

- \$6 million in New Generation Cooperative Incentive Tax Credits. Cooperatives, like Missouri's two ethanol plants, are eligible for credits if they convert agricultural commodities into value-added goods.
- \$4.9 million to continue producer incentives supporting Missouri's ethanol plants.
- \$270,000 to expand markets for products through AgriMissouri, which promotes buying Missouri products through special events, advertising, matching fund programs, and publication of a buying guide.



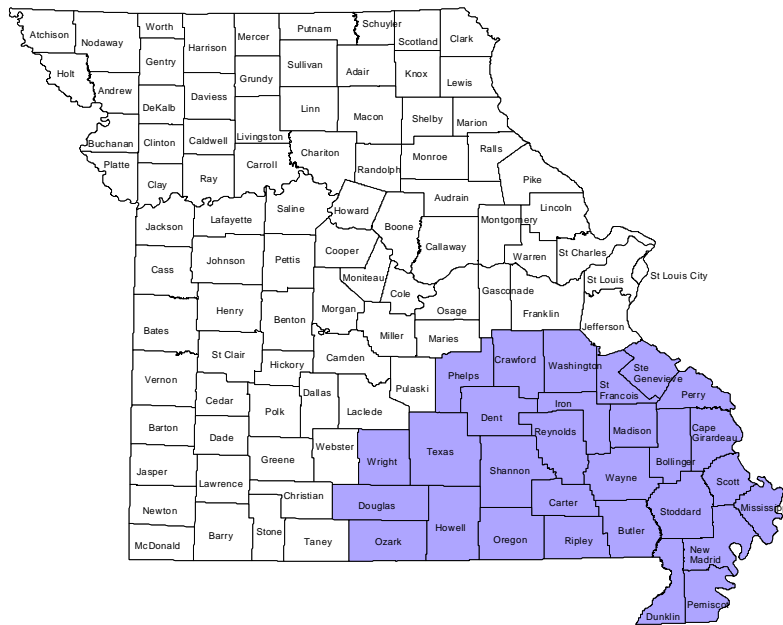
Delta Regional Authority

The Delta Regional Authority Act of 2000 was enacted by Congress and signed into law by President Clinton on December 21, 2000 (Public Law 106-554). The Delta Region, rich in heritage and long plagued with problems that have hampered its ability to prosper even in the economic expansion of the 1990s, encompasses 236 counties in eight states: Missouri, Arkansas, Louisiana, Tennessee, Illinois, Kentucky, Mississippi and Alabama. In Missouri, the Act covers 29 counties in the southeast and south central parts of the state. These counties have unemployment rates

much higher than the state average, as high as 12.5 percent, and per capita income well below the state average.

With a minimal state investment, this initiative is expected to result in \$3.5 million in federal funds to assist in building infrastructure and to further improve economic development, transportation, education, health care, and housing in the Delta Region. Although the exact amount of funding will not be known until spring 2002, the Delta Regional Authority will benefit many Missourians.

Delta Regional Authority



Delta Regional Authority Missouri Counties

**Bollinger
Butler
Cape Girardeau
Carter
Crawford
Dent
Douglas
Dunklin
Howell
Iron**

**Madison
Mississippi
New Madrid
Oregon
Ozark
Pemiscot
Perry
Phelps
Reynolds
Ripley**

**Scott
Shannon
St. Francois
St. Genevieve
Stoddard
Texas
Washington
Wayne
Wright**

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MISSOURI BUDGET AND LEGISLATIVE AGENDA

Enjoy a Long, Healthy Life

“I will apply a common sense, cost-effective approach and commitment to reform in meeting the health care challenges facing Missouri.”

Governor Bob Holden

The changing economics of health care pose major challenges for Missourians and the rest of the nation. Managed care, the rising costs for pharmaceuticals, hospital mergers, corporate take-overs, and the need to protect sensitive patient data have all created new tensions between the business side of health care and the needs of practitioners and their patients. Governor Holden is committed to improving the health of Missourians. His Fiscal Year 2003 budget will protect tobacco settlement funds for smoking prevention and cessation programs and provide senior citizens with assistance for their prescription drug costs. In addition, the Governor proposes several legislative initiatives to protect consumers from unfair business practices. In his first year, Governor Holden accomplished the following to make Missouri a healthier, and more consumer friendly, place to live:

- Signed legislation to provide relief to seniors for the high costs of prescription drugs. House Bill 3 and Senate Bill 4 were signed into law in October 2001. The Governor made his appointments to the commission overseeing the new Senior Rx Program on October 31, 2001.
- Signed legislation to provide comprehensive protections for women's health to improve the lives and life expectancies of women in Missouri. This important law will provide Missouri women direct access to the health care providers most often visited for women's health issues, OB/GYNs, and grant women the opportunity to access critical contraceptive coverage. It also requires health plans to notify all enrollees about cancer screenings offered as benefits and expands Medicaid coverage to low-income women diagnosed with breast and cervical cancer. House Bill 762 was signed into law on June 21, 2001.
- Signed legislation to reorganize the former Division of Aging and Department of Health to form a new Department of Health and Senior Services. The bill also established a new State Board of Senior Services to advise the department about rules, regulations, budgeting, planning, and operations related to senior services. House Bill 603 was signed into law on June 26, 2001.
- Signed legislation to protect Missouri consumers from high interest rates and loss of property. New laws tighten regulations for payday and title loan companies and increase consumer protection measures. House Bill 738 and Senate Bill 186 were signed into law on July 12, 2001.
- Budgeted \$133 million for one-time grants to increase efficiency and quality of care in nursing homes.
- Budgeted \$18.7 million for a comprehensive tobacco prevention, education, and cessation program. These funds will be invested in efforts endorsed by the Centers for Disease Control and Prevention (CDC), which are proven to reduce youth smoking.
- Signed legislation to curb underage smoking by making it illegal for minors, under the age of 18, to possess tobacco products. House Bill 381 was signed into law on July 13, 2001.

- Budgeted \$3.4 million for a one-time grant for the Missouri Telehealth Resource Center (MTRC). Many Missourians, rural and urban, live in areas with inadequate access to basic health care. The MTRC will train local health care providers from Missouri's underserved communities to use telehealth technology, work with local providers and citizens to develop feasible telehealth projects in their communities, and provide telehealth equipment capable of using the Internet to improve access to high quality health care.
- Budgeted \$1.2 million to expand Medicaid coverage to women who are diagnosed with breast or cervical cancer through the CDC. Breast and cervical cancer survival rates are very high when cancer is detected in its early stages. With this in mind, a CDC program was created in 1990 to offer early cancer screening for low-income women who do not qualify for Medicaid. However, the program did not provide treatment for any of the screened women who were diagnosed with cancer. The new Medicaid coverage will fill this gap and ensure that the women in Missouri who test positive for cancer have access to treatment.

SUPPORTING MISSOURI SENIORS

Demographic information indicates that 18 percent of Missouri residents are over the age of 60 and seniors will comprise 25 percent of the state's population by 2020. Missouri ranks 12th nationally in the percent of population age 65 and over. The cost of health care-related services for senior citizens continues to skyrocket. Low-income seniors must make difficult choices on how to spend their limited resources. Governor Holden has made addressing the rising cost of prescription drugs a priority of his administration and recommends additional initiatives to protect Missouri's 750,000 senior citizens.

Prescription Drug Relief

For too long, the affordability of prescription drugs for Missouri seniors has been a serious concern. Prescription drug coverage is still excluded from Medicare, and separate insurance to cover prescription drugs is very costly. For too long, the affordability of prescription drugs for Missouri seniors has been a serious concern. Prescription drug coverage is still excluded from Medicare, and separate insurance to cover prescription drugs is very costly. Americans 65 and older pay an average of \$1,205 a year for prescription medications, up from \$559 in 1992. This cost is expected to rise to \$2,810 by 2010. Many seniors must make difficult choices about which of their prescriptions to forgo, possibly leading to serious health care consequences. This is evident by the fact that seniors without

prescription drug insurance average nearly eight fewer prescriptions per year than those with insurance.

In 2001 the General Assembly failed to pass the Governor's prescription drug plan. The Governor called the General Assembly back for a special session in September to address this important issue. They passed a plan Governor Holden signed into law, creating the Missouri Senior Rx Program to provide benefits to seniors who need assistance the most. This legislation:

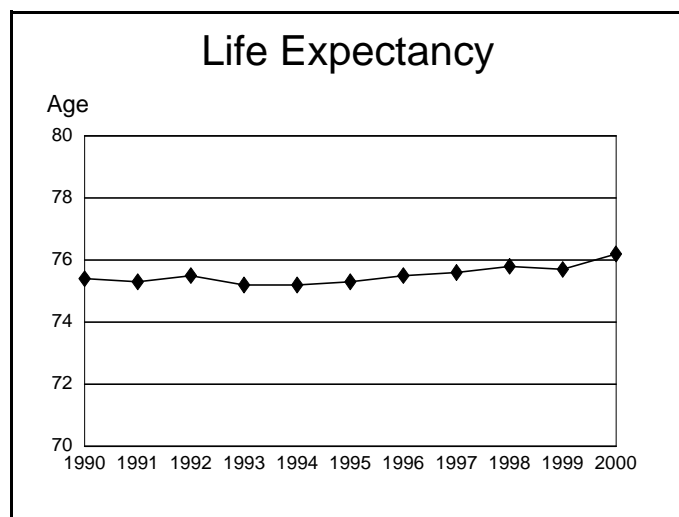
- Establishes a fifteen-member commission to oversee implementation of the Missouri Senior Rx Program and ensure it stays within budget.
- Provides drug coverage for seniors with individual incomes below \$17,000 or household incomes below \$23,000.
- Allows each eligible senior to save up to \$5,000 per year. The average savings estimate per participant is \$1,300 annually.
- Is estimated to serve 55,000 seniors in Fiscal Year 2003 and 80,000 next fiscal year through the Missouri Senior Rx Program.
- Sunset the current prescription tax credit for seniors on December 31, 2001.

Since passage of the legislation, the Governor has appointed the members of the Senior Rx Commission, chaired by Lt. Governor Joe Maxwell. Proposals to administer the program for the state are currently being reviewed. Seniors can enroll in the program between April 1 and May 31, 2002. The program will begin July 1, 2002. Governor Holden's Fiscal Year 2003 budget includes \$75.8 million to implement the first year of the Missouri Senior Rx Program.

Long-term Care Insurance

Long-term insurance policies have been offered since the early 1980's when coverage was largely limited to skilled or custodial nursing care in a residential facility. Seniors living longer and the aging of the baby-boom population have increased the market for these policies. Since 1993 the number of policyholders has more than doubled and the average premium has almost tripled. Missouri's long-term care insurance law has

not been updated for over a decade and has become out-of-date and ineffective. In recent years, consumer complaints to the state's Department of Insurance about long-term care insurance have increased by 150 percent. Most of these complaints center on a perceived promise or misrepresentation that initial rates would not change over the life of the policy. To protect consumers and improve the quality of long-term care coverage in Missouri, Governor Holden proposes that the state's Department of Insurance be allowed to issue regulations that have been endorsed by the National Association of Insurance Commissioners.



2002 Legislative Initiative Long-term Care Insurance Policies

Missouri's law that governs the sale of long-term care insurance allows insurers to price long-term care policies cheaply and then compensate with large rate hikes as time passes. Governor Holden recommends that the law be strengthened to meet national standards, including:

- Expanding and further qualifying the definition of "federally qualified long-term care insurance".
- Requiring companies to disclose rate increase history on the same or similar policies.
- Requiring substantial justification to support any proposed premium increase.

Protection of Nursing Home Residents

Over 58,000 elderly and adults with disabilities currently reside in long-term care facilities. While most facilities annually meet state requirements for health and safety, there are a few facilities that continue to be in and out of compliance. During Fiscal Year 2001, 14 facilities were repeatedly issued notices of non-compliance for failure to meet state requirements for the safety and health needs

of their residents. Three had notices of non-compliance due to repeatedly placing residents in imminent danger. In Fiscal Year 2001, 36 of the 500 Medicare-certified facilities in Missouri received repeated violations of federal requirements that resulted in actual harm to residents. In order to better protect residents in long-term care facilities, the Governor supports additional measures to strengthen Missouri's long-term care laws.

2002 Legislative Initiative Strengthening Nursing Home Licensure

Currently the state Department of Health and Senior Services cannot consider the performance history of the owner/operator of the facility when they are seeking a new license to expand an existing facility or build a new facility. The Governor supports legislation that:

- Gives the Department of Health and Senior Services authority to consider performance history of an owner/operator who is seeking a new license.
- Provides a mechanism in the state licensure law that allows the state to sanction facilities with repeat, serious violations.
- Allows the state to obtain additional financial information about potential operators to help ensure they have sufficient resources to operate and will not have to shutdown the facility, leaving their residents with no place to live.

MAINTAINING ADEQUATE ACCESS TO HEALTH CARE

Governor Holden's Fiscal Year 2003 budget mirrors a problem all states are currently grappling with, the high cost of health care. According to the Centers for Medicare and Medicaid Services (CMS), health care spending in the United States rose to \$1.3 trillion in 2000, a 6.9 percent increase over the previous year. This increase was the highest annual increase recorded since 1993, when spending rose by 7.3 percent, and is the fastest acceleration of spending in twelve years. In Fiscal Year 2000, nationwide Medicaid spending totaled approximately \$207 billion in state, local, and federal funds. In Missouri, Fiscal Year 2001 Medicaid spending totaled \$3.8 billion.

Medicaid expenditures continue to grow due to a number of factors including increased prescription drug costs, medical inflation, expansion of community-based, long-term care programs, increased enrollment, and changes in demographics. This year's budget reflects trends occurring nationally, as health care, hospital, and pharmaceutical costs continue to

outpace inflation and states struggle for solutions to slow Medicaid costs.

Ensuring Access to Health Care for Low-Income Missouri Children

The federal Balanced Budget Act of 1997 contained funding for states to initiate and expand health insurance coverage for uninsured children through the Children's Health Insurance Program (CHIP). CHIP represents the largest expansion of access to children's health care since the creation of Medicaid in 1965. The General Assembly enacted legislation to expand health care coverage through the Children's Health Initiative (Senate Bill 632, 1998).

This legislation:

- Made health insurance available to thousands of Missouri's uninsured who did not otherwise have access to health care.

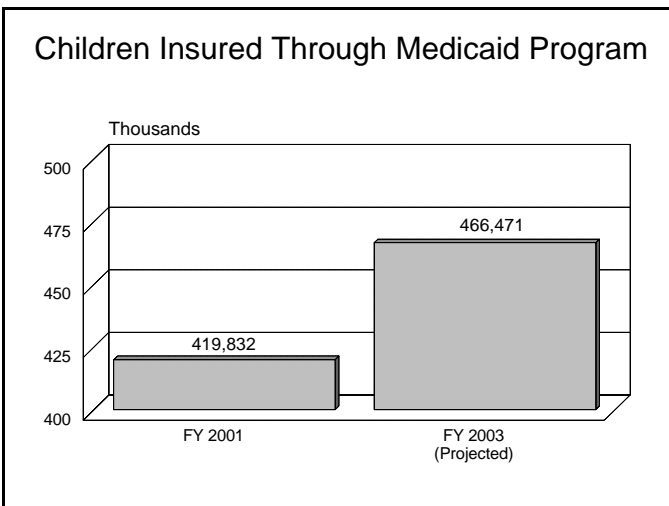
2002 Legislative Initiative Children's Health Insurance Program

Governor Holden is committed to continuing vital health care access for low-income Missouri children. CHIP is a federal and state funded program that offers health insurance coverage to uninsured children. The Governor recommends CHIP be continued so children do not lose this critical health insurance coverage, because:

- Preventive care costs taxpayers less in overall health care costs. Uninsured families tend to only seek services when an acute problem arises, by which time treatment and recovery take longer and are more costly. Under CHIP, children have 38 percent fewer preventable hospitalizations and 22 percent fewer emergency room visits for asthma.
- Children who are unhealthy due to a lack of access to primary and preventive services miss more days of school and are often not ready to learn when at school. With CHIP, the percentage of school days missed by children has decreased 39 percent.
- To be eligible for the CHIP Program, children must be uninsured for at least six months and have a family income below 300 percent of the federal poverty level (FPL). Families with incomes above 185 percent of the FPL must pay copayments and those with incomes above 225 percent of the FPL must also pay a monthly premium. Children between 226 and 300 percent of the FPL make up less than four percent of the total children enrolled in the program and cost only \$1.9 million total per year.
- The CHIP Program represents only two percent of the total Medicaid budget.

- Ensured that children receive immunizations and periodic physical examinations.

Unless renewed, the Children's Health Initiative will expire on July 1, 2002. To continue this very successful program and maintain health care services for 78,000 Missouri children, Governor Holden calls on the General Assembly to extend CHIP.



Medicaid Cost Controls

To address escalating health care costs in Missouri, the Governor's budget includes numerous cost containment measures to curtail Medicaid expenditures. Even with the implementation of these cost containment efforts in the state's Medicaid program, Governor Holden continues his commitment that children receive access to vital health care coverage through the Medicaid program. No child will lose health insurance coverage as a result of these cost control efforts. The Governor's Fiscal Year 2003 budget proposes:

- Increasing the level of disability required for eligibility for in-home and nursing home services. By increasing the disability level, Missouri will focus in-home and nursing home services on those Missourians who most need the care, thus enabling the state to continue long-term funding of Medicaid services. Estimated savings - \$27.1 million.
- Containing pharmacy costs, including a plan to prior authorize all new drugs coming onto the market. According to

CMS, drug spending accounted for more than a quarter of the total growth in personal health care spending between 1999 and 2000. In addition to the aging of the population, the introduction of new therapies for chronic conditions has gradually added to the average number of prescriptions purchased. Retail prescriptions per capita have increased to 10.5 per person in 2000, from 8.3 in 1995. Prior authorizing all new drugs purchased through the Medicaid program will ensure that new drugs have actual health benefits for Medicaid recipients in the state. In addition, Medicaid will cease reimbursement for over-the-counter drugs, allowing Medicaid to more closely mirror the health care benefits enjoyed by most Missourians. Estimated savings for pharmacy cost containment proposals - \$50.4 million.

- Modifying or eliminating optional Medicaid services for adults. Although Missouri has opted to cover dental and optical services for adults in the Medicaid system in the past, in order to ensure the solvency of the Medicaid system, it has become necessary to end coverage provided for these optional Medicaid services. Estimated savings - \$16 million.
- Instituting policy changes in the Medicaid Spend-down Program. Spend-down allows eligible Missouri residents to spend-down their income in order to qualify for Medicaid benefits. Currently, the program allows participants to incur, not pay, expenses in order to qualify for the spend-down program. By instituting a policy change that requires recipients to actually pay these costs, the state will continue to be able to provide this service to eligible recipients. Estimated savings - \$20.6 million

Even with the cost containment plans proposed by the Governor, Medicaid costs continue to increase. In order to address caseload growth and inflationary increases for health care services, the Governor's Fiscal Year 2003 budget includes:

- \$132.6 million for anticipated costs of existing Medicaid programs to ensure that all program cores are sufficiently funded to meet projected expenditures.

- \$117.8 million for increased costs of prescriptions, utilization of pharmacy prescriptions by the elderly and those with disabilities, and other anticipated increases.
- \$94.6 million for anticipated caseload increases in Medicaid programs.
- \$63 million for one-time, start-up grants to increase efficiency and quality of care in nursing homes.
- \$60.4 million to increase dispensing fees paid to pharmacists.
- \$1 million to fund targeted case management services for the elderly.

Improving Public Health Services

The public health system plays a central role in developing and implementing programs to safeguard the public's well-being. Additional resources will improve the lives of Missourians with disabilities and implement several new legislative initiatives passed by the General Assembly. The Governor recommends:

- \$23.8 million to increase the Personal Care Assistance Program for Medicaid-eligible Missourians, allowing individuals with disabilities to choose to receive services in the community rather than in a nursing home.
- \$868,076 to expand newborn genetic screening as authorized in House Bill 279 (2001). This will allow for early detection and treatment of genetic diseases that dramatically impact the health of children.
- \$275,102 to allow the Department of Health and Senior Services to develop and implement a new comprehensive quality monitoring and training system, including training requirements for long-term care providers, as required by House Bill 603 (2001).
- \$106,678 to expand the Family Care Safety Registry to include additional in-home service providers as passed in Senate Bill 48 (2001).
- \$58,987 to implement the Lupus Program in the Department of Health and Senior Services, as outlined in House Bill 106 (2001).

Tobacco Prevention and Cessation

In 1998, the National Association of Attorneys General announced a national settlement agreement with five major tobacco companies. Missouri was part of this settlement. In May 2001, Missouri received its first payment of the Tobacco Settlement proceeds. It is estimated that the state will receive about \$164 million during Fiscal Year 2003. Because of the state's current revenue situation, it is not prudent to begin dozens of new programs when existing programs are being cut. The Governor recommends using a portion of the tobacco proceeds to pay for core health care programs while retaining a portion for the most critical investments that will improve the lives of Missourians in the future.

Tobacco use in Missouri is one of the highest in the nation; 27 percent of adults smoke. Even more alarming are recent studies that one-third of Missouri teenagers are smoking. As a result, Missouri ranks well above average in smoking-related diseases such as heart disease, cancer, and emphysema. Several states have made investments in tobacco prevention and tobacco use reduction programs. To decrease the costly and deadly impacts of smoking and to help contain future health care costs in Missouri, Governor Holden supports Fiscal Year 2003 funding of \$22.2 million to support smoking cessation, prevention, and anti-smoking education. These funds will be invested in efforts endorsed by the CDC, which have been proven to reduce youth smoking in other states.

In addition, the Fiscal Year 2003 budget includes:

- \$477,993 to implement a tobacco law enforcement program to curb underage smoking as required by HB 381 (2001).

State Employee Health Care

Health care costs continue to rise for all Missourians, including state employees. In Fiscal Year 2002 the General Assembly passed and the Governor approved an increase of more than \$61 million to help cover the rising costs of health care for state employees. In addition, the Governor has pledged to increase funding by an additional \$8.7 million to maintain the state subsidy level for employee health care through the current

fiscal year. Although the state employees' portion of health care costs have gone up an average of 12 percent, if the Governor had not approved this increased funding, employees would have experienced increases of more than three times that amount.

The Governor is recommending the following in Fiscal Year 2003 to help contain the cost of health care for state employees and their families:

- \$18.5 million to continue the current state subsidy level for employee health care benefits through calendar year 2002.
- \$3.1 million to fund Senate Concurrent Resolution 27 (2001). The resolution recommends basing the state contribution toward retiree health care premiums on an employee's length of service with the state. This will add value to the current benefits package and encourage employees to continue in state employment with a career goal of 30 years of state service.
- \$5.6 million to set up a reserve for a self-insured HMO plan for certain areas of the state that aren't well served under existing contracts.

PROTECTING MISSOURI CONSUMERS

Missouri consumers have a right to be treated fairly by the companies with which they do business. All Missourians should have equal access to reasonably priced goods and services and should be able to trust that the companies they deal with will keep any confidential information private. The state works with Missouri consumers every day to ensure these rights are protected. The state does this by investigating and taking action on consumer complaints, offering educational seminars and materials so consumers can make informed decisions, and providing direct assistance when needed. Unfortunately, there will always be some businesses that take advantage of Missouri consumers. In 2001 alone, the Missouri Department of Insurance and the Office of the Public Counsel received over 7,000 consumer complaints. To limit these instances of unfair business practices, the Governor recommends innovative legislative initiatives to keep medical records private, prevent credit scoring, and protect Missourians from high energy costs.

Ensuring the Privacy of Patient Medical Records

The remarkable achievements that have been made in the medical and technological fields are forcing lawmakers throughout the country to rethink the issue of medical privacy so that all of our citizens are protected. Technology has enabled rapid and easy access to vast amounts of digitized information. However, the computerization of large medical records databases and the growth of integrated managed care make it more challenging than ever to ensure that patient privacy is not violated.

2002 Legislative Initiative Medical Privacy

Governor Holden proposes uniform disclosure and abuse prohibitions to provide patient protections without stifling important medical research or quality assurance efforts, including:

- Protecting medical records by a clear and comprehensive set of disclosure and abuse prohibitions to ensure that no business, insurance company, or government agency misuses a patient's private medical record.
- Ensuring that patients have a civil remedy for damages due to illegal use of private medical information.

Credit Scoring

The use of credit history as an underwriting tool reportedly began with a study that presumed a correlation between insurance losses and credit scores. This underwriting or rating variable for insurance policies possibly establishes a premium cost based upon the economic profile and financial stability of the insured, and has the potential to adversely impact large segments of our society including farmers, seniors, and minorities. This unfair practice of “credit scoring” leaves thousands of Missourians without insurance coverage, financially vulnerable, and with very costly coverage as their only option.

2002 Legislative Initiative Credit Scoring

Governor Holden calls on the General Assembly to ensure that credit history information is applied in a non-arbitrary manner, is actuarially justified, and provides consumers with the opportunity to respond to inaccurate information by:

- Requiring insurers to have a written standard governing their use of credit information on applicants and policyholders.
- Defining the minimum requirements for written standards and permissible uses for credit scoring in underwriting.
- Requiring disclosure of precise reasons for denial of coverage as a result of credit factors.
- Allowing policyholders to be re-underwritten by request if improved or established credit could potentially entitle the insured to a better rate.

Protecting Missourians from High Energy Costs

During last year's record cold winter, the volatile natural gas and propane markets created hardships for many Missourians struggling to pay their heating bills. Gasoline prices also rose and fell throughout the year, often in patterns that seemed inexplicable. Gasoline price spikes associated with the events of September 11 led the public and policymakers to rethink how energy is generated and delivered to the American people. Governor Holden appointed a task force to study energy practices in the state. The Governor's Energy Policy Task Force submitted its final report in October 2001.

2002 Legislative Initiative Assistance with Energy Costs

To implement recommendations from the Governor's Energy Policy Task Force and ensure that Missouri consumers are protected and have access to adequate, fairly priced energy, the Governor proposes legislation that:

- Authorizes the Public Service Commission to order limited types of refunds to assist needy customers. The Commission would be granted authority to allocate unauthorized use charges, penalties, or refunds received by gas corporations to assist needy Missourians.
- Authorizes the Public Service Commission to implement low-income payment programs. Low-income payment programs help low-income customers avoid disconnection of service.
- Enhances the Attorney General's authority to issue cease and desist orders that have an immediate impact on energy prices and excess profits during times of emergency. Current law does not provide adequate tools to ensure an immediate termination of price gouging during times of emergency, leaving consumers vulnerable to price spikes based upon misleading and false information.